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THE EFFECT OF LAND DIVERSION PROGRAMS ON AGRICULTURAL SUPPORT INDUSTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON
RURAL ECONOMY AND FAMILY FARMING

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

THE EFFECT OF LAND DIVERSION PROGRAMS ON AGRICULTURAL SUPPORT INDUSTRIES

NOVEMBER 17, 1987

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HEARING DATE

November 7, 1987:
Morning session 1

THE EFFECT OF LAND DIVERSION PROGRAMS ON AGRICULTURAL SUPPORT INDUSTRIES

TUESDAY, NOVEMBER 17, 1987

U.S. SENATE,
SUBCOMMITTEE ON RURAL ECONOMY
AND FAMILY FARMING,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:35 a.m., room 428A, Russell Senate Office Building, Hon. Max Baucus, presiding.

STATEMENT OF HON. MAX BAUCUS, U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. The hearing of the Subcommittee will come to order. I would like to welcome everyone here today and thank you all for coming. This is the third in a series of hearings that this Subcommittee will be holding on problems facing rural America.

I think we are all aware of the problems facing the farm economy in rural America. More farmers went out of business in 1985 and 1986 than any other year since the Great Depression.

Net farm income is down 40 percent from its level of 1976 to 1979. The value of farmland has dropped between 40 and 75 percent since 1981 and the farmers' share of the consumer's food dollar is down 50 percent since 1979.

Over the years, the Federal Government has implemented farm programs to control the supply of products on the market. These programs include acreage allotments, crop land set-asides, acreage reductions, acreage diversions, and acreage conservation.

The programs are designed to boost farm prices by keeping surpluses down. Not only does the farmer need the good price for his product, the businesses which supply the farmer depend on his income for their prosperity.

I have been a strong supporter of farm programs since I came to the Congress. Farmers depend on these programs for about 40 percent of their total income. And while we must continue working to help farmers expand their agricultural exports, I believe that the farm programs are critical for the foreseeable future.

But there is another side to this coin. If we add up all the farm programs, we find that 30 percent of our country's cropland is not being cultivated. Less farming means less business for the local seed dealer, the fertilizer and pesticide distributor, and for the man who sells repairs for farm machinery.

According to a recent Department of Agriculture study, if there had been no acreage adjustment program for major crops in 1987, farm expenditures would have increased at least $1.5 billion for fertilizer, $650 million for pesticides, $500 million for energy, and $350 million for seed.

Because of this loss to local communities, I will be introducing legislation that would require an economic impact study to be completed for every land set-aside program that the Congress passes in the future.

In many communities around the country, agricultural support businesses are the lifeblood of the town. These businesses are the primary supplier of jobs for nonfarmers and for farmers who need extra income to get by.

For these reasons it is important to hold this hearing today to take a look at what our farm programs have done to our farm communities. We will be looking at these questions to get a clearer picture.

One, are further set-asides a desirable policy tool? Two, are there ways to minimize the negative impact that set-asides have on businesses without fundamentally altering the farm program? Three, how do we consider the interests of rural businesses in making decisions about our farm programs?

These are some of the questions that I will be pursuing and I am certain there are others that will arise as the hearing progresses.

Before I begin, I would like to ask the Senator from Minnesota, Senator Boschwitz, if he has a statement.

STATEMENT OF HON. RUDY BOSCHWITZ, U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator BOSCHWITZ. I thank you, Mr. Chairman, and compliment you for holding the hearing. I have long been an opponent of set-asides and continue to be so. Over the years we have given away a good deal of our market to farmers in other countries through the use of set-asides. Despite fact that we continue to have very large surpluses.

I recall that in 1983 we set aside, I think, about 78 million acres of land. In that same year, the other nations of the world planted 64 or 65 million new acres of land.

As we consider whether or not we are going to try to artificially affect market price by set-asides, which has not worked, we have to keep in mind that some of our competitor nations have vast, vast potentials of acres that have not been put into use.

For instance, there was a report in the publication Pro Forma, as a result of a trip they took to Argentina and Brazil pointing out that there is, in the case of Argentina, 350 million acres that could be put to the plow and only 60 or 70 million are now farmed; and in the case of Brazil, half a billion acres and only now 120 million are farmed.

So they have a vast potential to increase their production. And in this country, by contrast, we farm, as I recall the figure, 440 million acres. So that in the event that they bring this additional land into production, it would more than offset set-asides that we have in the United States and that, of course, is what has happened.

The other aspect of competition is, in my judgment, the infrastructure. We have the most efficient infrastructure, not by a little but by a great deal, in the world. Not only do we have this natural river system where the whole country is kind of bisected by the Mississippi and then bisected in parts again by its tributaries, but we have an infrastructure of barges, locks, dams, and deep river channels and rails. And we have elevators at virtually every whistlestop and roads, and on and on, that are just not duplicated elsewhere.

That is one of the greatest strengths that American agriculture has. And by laying aside lots of acres, we undermine that strength. And we undermine, perhaps, the greatest advantage that American agriculture has. I think that the American farmer is an efficient producer but there are other efficient producers in the world as well.

However, if you compare infrastructure to infrastructure, the infrastructure in the other countries do not hold a candle to ours, with the possible exception of Canada. And even in Europe the infrastructure is not of the same caliber as it is in the United States.

So that we must be careful not to undermine our infrastructure. And we should also keep in mind politically, Mr. Chairman, that there are more people working in that infrastructure than are working on the farm. And so we have a political interest in those folks as well, but we have to do what we can to preserve all aspects of our production and all aspects of agriculture. And so I continue to be an opponent of the idea of set-aside.

I am a proponent of the idea that we should produce, that it is in the interest of the Third World and our own country that we do produce, that we try over the period of time as this administration has suggested to undo some of the barriers that exist around the world.

When I talked to our friends in Europe about undoing their barriers, they become eclectic and I don't blame them. They are not efficient producers. They have extraordinary subsidies that are finally beginning to hurt them in their pocketbooks. They spend, when you consider the spending of the individual countries, plus the spending of the European community, about twice as much on agricultural subsidies as we do. And they are getting tired of that and their treasuries, indeed, are getting rather thin.

Though I must say I have heard about EC budget problems for a number of years now. And they become eclectic, Mr. Chairman, as I say, about the idea of our producing on a full throttle from the standpoint that their costs would be even higher and also from the standpoint that they clearly cannot produce the quantities that we can.

They have gerrymandered a farm system to accommodate the farmers in northern Germany. The average farm in Germany is somewhat less than 17 hectares, about 40 acres. The EC makes that size of farm profitable through their internal subsidization with the result that the system, of course, brings about a great deal of production on other larger farms.

Not to filibuster this point, Mr. Chairman, but as you well know, there is a so-called Ten Ton Club in Europe. The Ten Ton Club are those producers that produce 10 tons of wheat per hectare, a hec-

tare being 2.47 acres—2½ acres roughly. That is the equivalent of 150, 155 bushels of wheat per acre.

Some farms can really produce over there. If we are going to be able to sustain American agriculture in the long haul, and if we are going to be able to really make agriculture in this country great once again and take the position that it has in the past of being a dominant factor in the world market, we simply must not try to artificially prop-up markets. We have to accept more market influences, in my judgment, and try as hard as we can to reduce the barriers that exist in other countries.

On a level playing field, the performance of this country has always been good. I think we will do well. On a level playing field, our infrastructure that is so impacted by the large set-asides will also come to the forefront and make a meaningful contribution to sustaining and furthering American agriculture.

Thank you, Mr. Chairman.

[The prepared statements of Senators Dixon and D'Amato follow:]

NOVEMBER 17, 1987
STATEMENT BY SENATOR ALAN J. DIXON
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING
HEARING ON THE EFFECT OF LAND DIVERSION PROGRAMS
ON AGRICULTURE SUPPORT INDUSTRIES

THANK YOU, MR. CHAIRMAN.

IT IS OFTEN THOUGHT THAT THE PROBLEMS IN AMERICAN AGRICULTURE ARE PAROCHIAL, SINGLE INTEREST ISSUES. HOWEVER, I WOULD SUGGEST THAT THESE PROBLEMS ARE PERVASIVE, THREATENING MORE INDUSTRIES THAN JUST FARMING. THE FARMERS, BANKERS, RETAILERS, EQUIPMENT, FERTILIZER AND PESTICIDE MANUFACTURERS ARE INTERDEPENDENT. WHAT IMPACTS THE FARMER, IMPACTS THE ENTIRE AGRICULTURE SUPPORT SYSTEM. WE MUST KEEP THIS IN MIND AS WE EVALUATE THIS HEARING. WHAT OCCURS IN ONE SECTOR OF THIS ECONOMY INFLUENCES AND AFFECTS THE MANY OTHER SECTORS.

WE ARE HERE THIS MORNING TO DISCUSS THE IMPACT OF LAND DIVERSION PROGRAMS ON AGRICULTURAL SUPPORT INDUSTRIES. I BELIEVE OUR FIRST TASK MUST BE TO DEFINE THE PROGRAMS THAT WE ARE DISCUSSING. THEN WE MUST DETERMINE WHAT IS TO BE ACHIEVED BY SETTING THE LAND ASIDE. IS THE OBJECTIVE TO RAISE PRICES, INCREASE GROWTH, REDUCE PRODUCTION OR SAVE THE LAND?

ONCE THESE BASIC OBJECTIVES ARE ESTABLISHED, WE ARE THEN IN A POSITION TO EVALUATE THE IMPACT THAT THESE PROGRAMS HAVE ON THE SUPPORT INDUSTRIES. WE CAN STRIKE A BALANCE BETWEEN AGRICULTURE AND AGRI-BUSINESS. IT IS ESSENTIAL THAT BOTH AGRICULTURE AND AGRI-BUSINESS BE PRESERVED. SHOULD WE ALLOW ONE INDUSTRY TO FAIL OR WANE, THE OTHER WILL BE IMPACTED IN KIND.

THESE ARE NOT EASY ISSUES. I LOOK FORWARD TO THIS MORNING'S TESTIMONY TO PROVIDE INSIGHT TO THE PROBLEMS AND ALTERNATIVES FOR ITS SOLUTION.

I WANT TO THANK THE WITNESSES FOR TAKING THE TIME TO TESTIFY BEFORE THIS SUBCOMMITTEE. I ALSO WANT TO THANK MR. BURLING, PRESIDENT OF ILLINOIS FERTILIZER AND CHEMICAL ASSOCIATION, AND MR. RICHARD STILTZ, MANAGER OF CLAYTON POINT FERTILIZER FOR TRAVELLING FROM THE LOVELY CITIES OF ST. ANNE IN THE BEAUTIFUL COUNTY OF KANKAKEE AND FRANKLIN PARK IN COOK COUNTY, ILLINOIS TO PRESENT THE VIEWS OF THE FERTILIZER INDUSTRY.

STATEMENT BY SENATOR ALFONSE M. D'AMATO
BEFORE THE SUCBOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING
NOVEMBER 17, 1987

MR. CHAIRMAN, I WOULD LIKE TO WELCOME TO THE SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING THIS MORNING OUR PANEL OF WITNESSES WHO WILL COMMENT ON THE EFFECTS OF LAND DIVERSION PROGRAMS ON AGRICULTURAL SUPPORT INDUSTRIES.

THE RECENTLY RELEASED USDA STUDY ON THE EFFECTS OF ACREAGE REDUCTION PROGRAMS HAS ADEQUATELY DEMONSTRATED THE ADVERSE REPERCUSSIONS ON THE FARM ECONOMY. A GREAT MANY JOBS WOULD HAVE BEEN LOST IN AGRICULTURE AND AGRICULTURAL RELATED BUSINESSES AS WELL AS A SUBSTANTIAL LOSS IN GNP IF ACREAGE REDUCTION PROGRAMS WERE TO HAVE BEEN IMPLEMENTED IN 1987. TO THE ALREADY BATTERED RURAL FARM ECONOMIES IN THE MID-WEST AND WEST, WE MUST INQUIRE AS TO WHETHER OR NOT LAND DIVERSION PROGRAMS ARE A WISE FARM POLICY TO FOLLOW.

MR. CHAIRMAN, I LOOK FORWARD TO THE TESTIMONY OF OUR PANEL THIS MORNING AND TO THE INSIGHT THEY ARE SURE TO PROVIDE THIS SUBCOMMITTEE ON THE EFFECTS OF LAND DIVERSION PROGRAMS ON THE AGRICULTURAL SUPPORT INDUSTRIES.

THANK YOU, MR. CHAIRMAN.

Senator BAUCUS. Thank you very much, Senator, for that summary of where we are. Our first witness is Mr. Lee who is the Administrator of the Economic Research Service at the USDA. Mr. Lee.

Actually, let's also bring up Mr. Kulik who is Deputy Associate Administrator of Disaster Assistance of the SBA. Are you to be accompanied——

Mr. KULIK. By Mr. Foren, yes, sir.

Senator BAUCUS. Mr. Foren, the Director of the Office of Economic Development.

Mr. Lee, would you begin?

Senator BOSCHWITZ. I have read some of the material that you fellows have put out and I have liked it very much.

Senator BAUCUS. I will agree with that. I read your statement last night, Mr. Lee, and I was quite impressed with it.

STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. LEE. Thank you, Mr. Chairman. Good morning, and good morning, Senator Boschwitz. If it is agreeable, given you have a large number of witnesses, I will submit my statement for the record and abbreviate my comments.

Senator BAUCUS. I have already read it.

Mr. LEE. My remarks will focus on two areas: The general effects of acreage reduction programs on the sectors that are linked to agriculture; and particularly the specific effects on the input industries. That is where most of the impact is today.

I would point out at the outset——

Senator BAUCUS. Could you possibly speak up a little? I don't know if these microphones are working or not.

Mr. LEE. I will point out at the outset that acreage reduction programs are only used when supplies are already out of line with demand. If surplus problems are not addressed with acreage reduction programs, the disequilibrium leads to progressively higher Government outlays and lengthens the period of time required to restore a supply-and-demand balance in the marketplace.

While I will be talking about the effects of idled acreage, the root cause really goes back to the factors such as high price supports prior to the 1985 Food Security Act, that caused oversupply, or factors such as an overvalued dollar and other economic circumstances that led to a weakened demand for what we export.

In effect, we turn to acreage reduction programs as a short-term expediency when other distortions in supply-and-demand have gotten markets out of balance.

The farm production sector is linked to the larger economy in a network of upstream and downstream industries, the input industries on one side and the downstream or the processing and marketing industries beyond the farm gate.

The $648 billion in final consumer export and stock demand for farm products, reported in 1984 was made up of about $65 billion in the input (upstream) industries; about $66 billion added by on-

farm activities; and $518 billion in downstream activities, that is, beyond the farm gate.

I used the 1984 data because that is the latest year we have consistent data. The 1986 and 1987 data would be similar.

The common statement that agriculture accounts for about 18 percent of U.S. gross national product refers to this entire complex of agribusiness activities from the beginning to the end of the stream, from preparation of inputs all the way to consumption by consumers.

Farming alone accounts for about 2 percent of the total GNP. The upstream activities, input industries, account for another 2 percent. And the downstream activities, the largest part, accounts for about 14 percent of our food and fiber industry.

We can also think of these linkages in employment terms. The 21 million or so jobs involved in the total food and fiber system comprised of, in 1984, 16.3 million jobs beyond the farm gate, 2.7 million jobs on the farm and 2 million upstream; that is, in the input industries.

Senator BAUCUS. How many downstream?

Mr. LEE. Downstream is about 16 million jobs.

Senator BOSCHWITZ. That includes everybody, I presume, working at McDonald's?

Mr. LEE. That includes everyone from meat packing employees to people selling hamburgers in McDonalds, and working in grocery stores.

Now, how a policy such as a land diversion program reverberates throughout the economy depends a lot on the strength of the linkage between these various sectors as well as the size of the diversion program, whether income is transferred as part of the program—such as paid diversion—and what type of land is being diverted.

Small land diversion programs, especially in periods of surplus, leave the long-run farm prices essentially unaltered and, thus, mainly affect the upstream input supply industries. In other words, you basically have such programs in place to deal with excess production and they are not affecting the amount of product that is flowing downstream.

A land diversion large enough to substantially raise farm prices in 1987 circumstances could be felt all the way to the domestic processing and consumption end of the agricultural complex with food prices increasing.

The USDA's analysis, to which you referred, indicates that idling approximately 53 to 54 million program acres through set-asides, acreage reduction programs, and paid land diversions—that excludes the conservation reserve—may have prevented the creation of up to 250,000 to 300,000 additional jobs in agriculture and related industries.

But, of course, without these idled acres, the additional production would have simply piled up in stockpiles at taxpayers' expense. At some point, of course, it would have been inevitable that we would have some kind of a cutback.

These annual acreage reduction programs do give us the flexibility to respond to short-term market conditions. In contrast to current levels of acreage reduction, the Economic Research Service did

a study on the impact of cutting acreage back enough to raise commodity prices to 80 percent of parity. That would require that we idle 40 to 50 percent of our program acreage base. The combination of these sharply reduced input purchases or lower domestic and export demand under such a large land diversion could reduce GNP substantially, we estimate over $60 billion, and employment by over 2 million jobs in the total economy.

The traditional acreage reduction programs used in recent years have not been large enough to significantly affect most downstream industries, particularly under the 1985 farm bill. Since acreage reductions are generally implemented only when surpluses are on hand, the effects that export-oriented downstream industries have experienced are more the result of depressed demand and not a result of the set-aside programs.

The indirect effects of traditional acreage reduction programs have been felt largely on the input industries. Agricultural input prices and use are highly correlated with planted acres, especially for nondurable inputs such as seed, fertilizer, and pesticides.

Historically reducing planted acreage by 10 percent has reduced input use by 6 percent. Of course, if you expanded the amount of acreage set aside, you would probably get a higher percentage because you would move more and more into the more productive lands.

Inputs are not reduced by as much as acreage is reduced because farmers typically idle their less productive, less intensively-farmed land. And, in addition, they sometimes boost input use on the land that remains in production.

USDA's analysis of the 1987 programs indicate that farm expenditures, as you have already indicated, would have been at least $350 million higher for feed. $1.5 billion higher for fertilizers, and $650 million higher for pesticides, if the 53 or 54 million acres idled through the farm commodity programs have been planted this year.

The 18 million or so acres enrolled in the CRP further reduces the demand for nondurable inputs. We think that results in additional 1 to 2 percent loss in annual fertilizer and pesticide sales.

Also it is true that input manufacturers' profit margins have been squeezed by lower sales and by pressures to lower prices or minimize price increases. Farmers' real expenditures in 1986 for pesticides, fertilizers, and seed were 10, 29, and 16 percent respectively, lower than in 1981.

With roughly 70 million acres, including CRP, idled in 1987, domestic fertilizer use is projected to decline for the third consecutive year to approximately 18.5 million tons. This is only 2 to 3 percent above 1983, when we took out a record 78 million acres under the PIK Program.

Domestic sales of pesticides are also expected to decline this year because of heavy farmer participation in commodity programs, but there is a bit of a bright spot in some of these industries because of increasing foreign demand and exports of pesticides.

The agricultural input manufacturing and distribution industries like the agricultural production sector they support, are in transition. The 1970s brought expansion and an optimistic outlook. The 1980s brought reduced global demand, accumulating surpluses,

acreage cutbacks, and consequently, sharp reversal in domestic input demand.

Over the last 5 years, agricultural support industries have had to adapt to declining acreage as well as financial stress within the farm sector. The fertilizer and farm machinery industries appear to be facing the greatest pressures as reflected by industry reorganizations and capacity reductions.

On a lesser scale, U.S. pesticide and seed industries are undergoing similar reorganizations but product diversity, pricing structure, and export demand have mitigated the adverse effects on those latter industries.

The present outlook for the farm sector and agricultural input industries is somewhat brighter. Net cash and net farm income are both up. Actually in the 1973 to 1977-1978 period, incomes, regardless of the measures used, were declining in both nominal and real terms throughout the period.

In the last 3 or 4 years we have had record high nominal farm incomes so we have a pretty good net cash and net farm income situation now. As a result, the purchasing power of farmers is strengthening. This is being reflected somewhat in the turnaround in the land market. And with lower farm debt and rising land values, farmers' equity is once again increasing. This will be the first increase in farm equity since 1981.

This will make it easier to borrow the capital needed for input purchases and to provide some additional cash for input purchases. Further, we are seeing a stronger export market which is crucial for both upstream and downstream businesses.

The declining value of the dollar and more competitively priced U.S. commodities have already stimulated increased exports and employment by some domestic input manufacturers. With increased demand for agricultural exports, the stage is set for less reliance on annual acreage reduction programs. That is our hope.

Increasing production without adding to stocks is the impetus needed for a sustained boost in the input markets. Wheat and cotton are good examples of where we are already backing off a bit on the acreage reduction program requirements.

The focus of the Food Security Act of 1985, is on improving demand for farm products, which in turn drives demand for inputs and market services.

Mr. Chairman, I appreciate very much this opportunity and I will be happy to answer any questions you may have.

[The prepared statement of Mr. Lee follows:]

Statement by John E. Lee, Jr.
Administrator, Economic Research Service
U.S. Department of Agriculture
before the
Subcommittee on the Rural Economy
and Family Farming
Senate Committee on Small Business
November 17, 1987

Thank you Mr. Chairman, I appreciate the opportunity to discuss with the Subcommittee the effect of land diversion programs on industries supporting agriculture. My remarks will focus on two areas: the general effects of acreage reduction programs on sectors linked to agriculture, and the specific effects observed for agricultural input industries.

I would point out at the outset that acreage reduction programs are only used when supplies are already out of line with demand. If surplus problems are not addressed with acreage reduction programs, the disequilibrium leads to progressively higher government outlays and lengthens the period of time required to restore market equilibrium. While I will be talking about effects of idled acreage, the root cause goes back to factors such as high price supports that cause oversupply or factors such as an overvalued dollar that lead to weakened demand for what we export.

General Effects

The farm production sector is linked to the larger economy in a network of input purchases and product sales. Producers buy inputs such as equipment, supplies, feed, seed, fertilizer, labor, and financing from "upstream" sectors. In turn, producers sell products to "downstream" sectors that store, process, transport, manufacture, distribute, retail, consume, or export the products.

Linkages of the food and fiber system to the larger economy are shown in figure 1. The $648 billion in final consumer, export, and stock demand for farm products reported in 1984 was made up of $518 billion in downstream activities, $66 billion in onfarm activities, and $65 billion in upstream activities.

The common statement that agriculture accounts for 18 percent of the U.S. gross national product (GNP) refers to the entire complex of agribusiness activities from the beginning to the end of the stream. Farming alone accounts for 2 percent of total GNP, while upstream activities account for another 2 percent and downstream activities for 14 percent.

These linkages can also be described in employment terms. The 21 million jobs involved in meeting consumer and export demand and storing surplus farm products in 1984 were comprised of 16.3 million jobs downstream, 2.7 million jobs on the farm, and 2 million upstream.

How a policy such as a land diversion program reverberates throughout the economy depends on the strength of the linkage as well as the size of the diversion program, whether income is transferred as a part of the program, and what type of land is being diverted. Small land diversion programs leave long run farm prices essentially unaltered and thus mainly affect the upstream input supply sectors. A land diversion large enough to substantially raise farm prices could, however, be felt all the way to the domestic processing and consumption end of the agricultural complex, with food prices increasing substantially.

The typical, annual acreage reduction program, implemented to limit accumulation of excess stocks by government, generally results in levels of land diversion that have little effect on commodity prices. USDA's analysis

of 1987 farm commodity programs indicates that idling 53.5 million program acres through set-asides, acreage reduction programs, and paid land diversions (excluding the Conservation Reserve) may have prevented the creation of up to 250,000 to 300,000 additional jobs in agriculture and related industries. But, without the idle acres, the additional production would have simply expanded surplus stockpiles at taxpayer expense. At some point a production outback would be inevitable. Under acreage reduction programs the outback is managed and predictable. Without a managed outback, the adjustment would be less predictable and the magnitude could be larger and more disruptive. In contrast to this typical effect, an Economic Research Service study has shown that a much larger acreage reduction program--one which would restrict commodity sales to the point where commodity prices could be raised to 80 percent of parity--would idle roughly 50 percent of the program acreage base. The combination of sharply reduced input purchases and lower domestic and export demand under such a large land diversion would reduce GNP by $64 billion and employment by over 2 million jobs (see Figure 2).

The traditional acreage reductions used in recent decades have not been large enough to significantly affect most downstream industries. Since acreage reductions are generally implemented only when surpluses are on hand, the effects that export-oriented downstream industries have experienced are more the result of depressed demand. The depressed demand can be attributed to many factors including high price supports, the strong dollar, and debt problems in many importing countries.

Effects on Agricultural Input Industries

The indirect effects of traditional acreage reduction programs have been limited largely to the agricultural input sector. Agricultural input prices

and use are highly correlated with planted acreage, especially for nondurable inputs such as seed, fertilizer, and pesticides. Historically, reducing planted acreage by 10 percent has reduced input use by about 6 percent. Inputs are not reduced by as much as acreage is reduced because farmers typically idle their less productive, less intensively farmed land. In addition, farmers often boost input use on the land which remains in production.

USDA's analysis of 1987 programs indicates that farm expenditures would have been at least $350 million higher for seed, $1.5 billion higher for fertilizer, and $650 million higher for pesticides if the roughly 53 million acres idled through farm commodity programs had been planted this year. The nearly 18 million acres enrolled in the Conservation Reserve Program (CRP) further reduces the demand for nondurable inputs, resulting in an additional 1 to 2 percent loss in annual fertilizer and pesticide sales. Recent declines in field seed demand have been somewhat offset by increased demand for grass and forage seeds used for establishing vegetative cover on CRP lands. But because CRP acres are not reseeded every year, this increased demand is temporary.

Should a "0/92" proposal be adopted, the program is likely to have only a small additional effect on input demand. The reduction in acreage from 0/92 would likely be small since most producers have variable production costs well below market prices or loan rates and they can increase their revenues by producing the program crop. In addition, inputs used for alternate crops grown on 0/92 acreage (largely conserving use crops) would partially offset inputs that would otherwise have been used for program crops.

Input manufacturers' profit margins have been squeezed by lower sales and by pressures to lower prices or minimize price increases. Farmers' real expenditures in 1986 for pesticides, fertilizers, and seed were 10, 29, and 16 percent below 1981, respectively. Real expenditures for farm machinery in 1986 were 27 percent of their 1979 peak. (See tables 1-4.) Reduced input sales have resulted in contraction by agricultural input distributors as well as manufacturers. As planted acreage declined after 1981, employment in farm supply wholesale and retail sectors also declined (table 5).

With roughly 70 million acres (including CRP) idled in 1987, domestic fertilizer use is projected to decline for the third consecutive year, to approximately 18.5 million tons. This is only 2-3 percent above 1983, when a record 78 million acres were diverted under the Payment-In-Kind program. Domestic sales of pesticides are also expected to decline this year because of heavy farmer participation in commodity programs. But increasing foreign demand and exports form a bright spot for the U.S. pesticide industry.

Farm machinery sales are more dependent upon real interest rates and farm equity than are nondurable input sales. Farm machinery sales have declined in large part because historically high real interest rates raised the cost of machinery investments while falling farm equity values have constrained farmers' ability to borrow capital for investment. Still, reduced acreage has contributed to the decline in farm machinery demand.

The agricultural input manufacturing and distribution industries, like the agricultural production sector they support, are in transition. The 1970's brought expansion and an optimistic outlook; the 1980's brought sharp reversals in domestic input demand. Over the last five years, agricultural support industries have had to adapt to declining acreage as well as financial

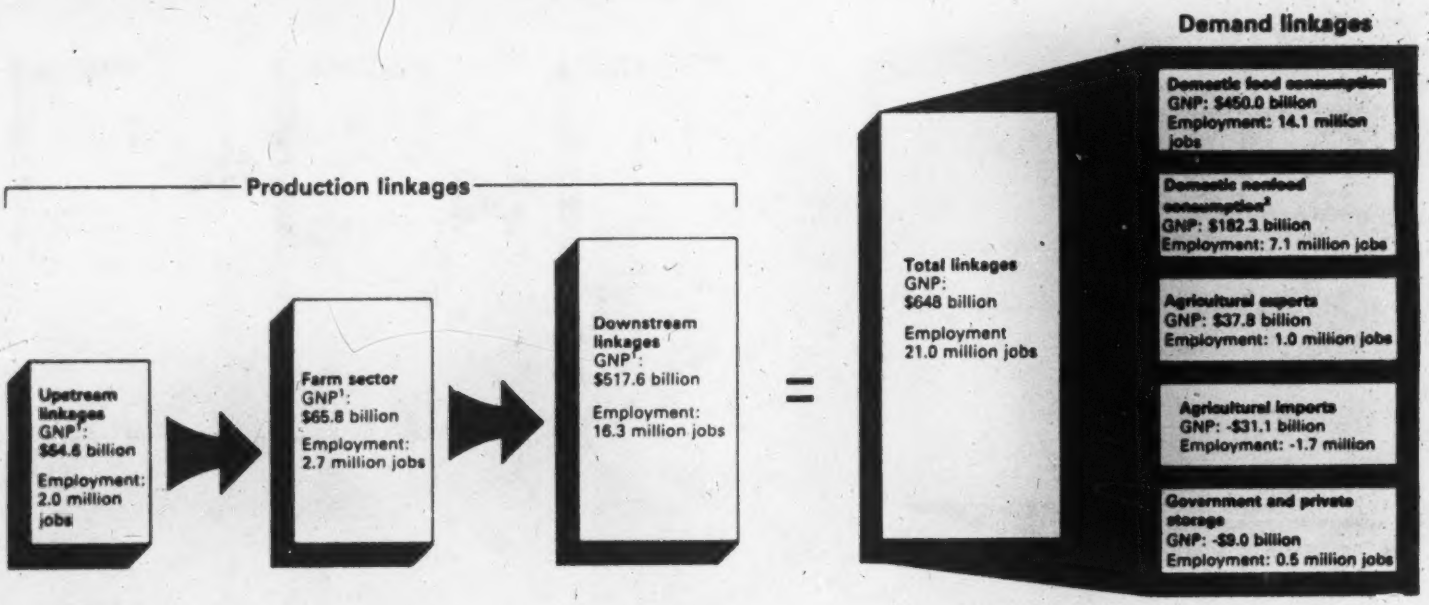
stress within the farm sector. The fertilizer and farm machinery industries appear to be facing the greatest pressures as reflected by industry reorganizations and capacity reductions. On a lesser scale, U.S. pesticide and seed industries are undergoing similar reorganizations, but product diversity, pricing structure, and export demand have mitigated the adverse effects of their readjustment.

The present outlook for the farm sector and agricultural input industries is, however, brightening. Net cash and net farm income are both up. As a result, the purchasing power of farmers is strengthening. This is being reflected on the turnaround of the land market. This whole change means more cash being available for input purchases as well as making it easier to borrow the capital needed for input purchases. Further, we are seeing a stronger export market which is crucial for both upstream and downstream businesses. The declining value of the dollar has already stimulated increased exports and employment by some domestic input manufacturers. With increased demand for export quantities, the stage is set for reductions in annual acreage reduction programs. Increasing production without adding to stocks is the impetus needed for a sustained boost to input markets. Wheat and cotton are good examples where we are already backing off on the acreage reduction program requirements. The declining value of the dollar and the competitive market orientation of the Food Security Act of 1985 focus on demand, which is the key to the derived demand for inputs and market services.

Thank you very much, Mr. Chairman. I will be happy to answer any question that you or the Subcommittee members may have.

Figure 1

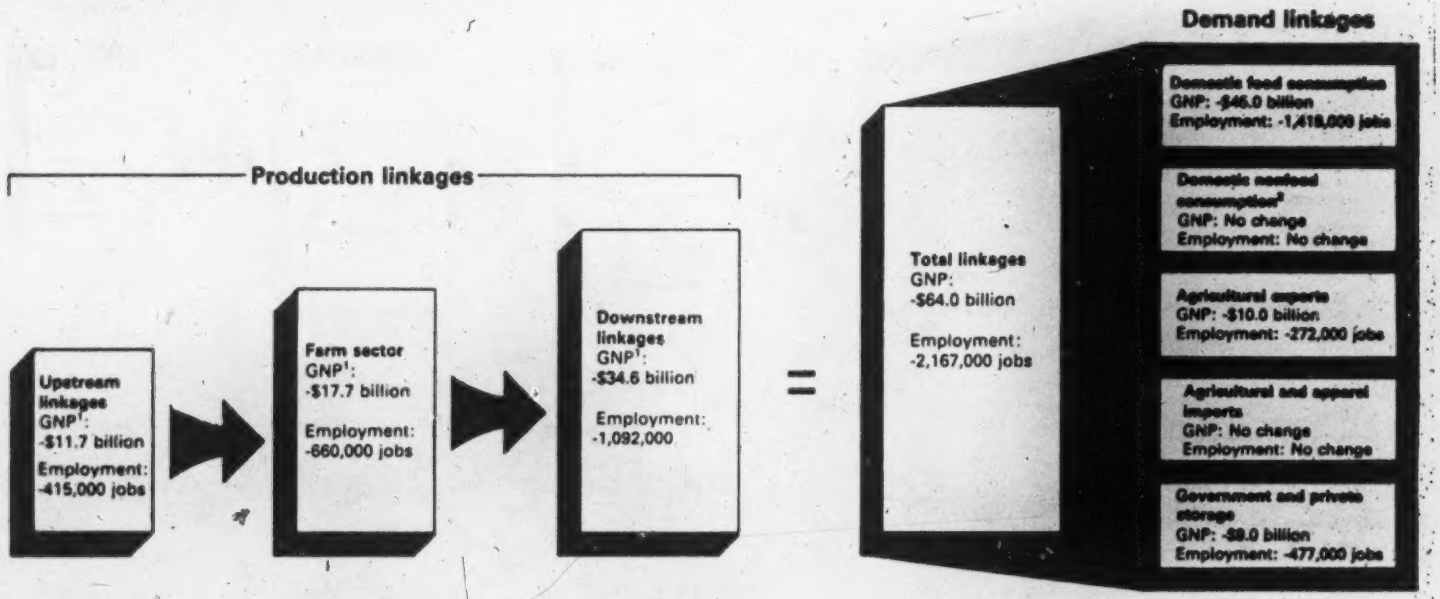
Agricultural Sector GNP and Employment Linkages, 1984


Production linkages
Upstream linkages GNP[1]: $54.6 billion
Employment: 2.0 million jobs
Farm sector GNP[1]: $65.8 billion
Employment: 2.7 million jobs
Downstream linkages GNP[1]: $517.6 billion
Employment: 16.3 million jobs
=
Total linkages GNP: $648 billion
Employment 21.0 million jobs
Demand linkages
Domestic food consumption GNP: $450.0 billion Employment: 14.1 million jobs
Domestic nonfood consumption[2] GNP: $182.3 billion Employment: 7.1 million jobs
Agricultural exports GNP: $37.8 billion Employment: 1.0 million jobs
Agricultural imports GNP: -$31.1 billion Employment: -1.7 million
Government and private storage GNP: -$9.0 billion Employment: 0.5 million jobs

[1]Scaled to level of demand to correct for small errors introduced in calculation.
[2]Clothing, shoes, tobacco, cut flowers, seeds, and potted plants.

Figure 2

How a Large Acreage Reduction Program Would Change Agricultural Sector GNP and Employment



[1]Scaled to change in demand to correct for small errors introduced in calculation.
[2]Clothing, shoes, tobacco, cut flowers, seeds, and potted plants.

Table 1-Fertilizer Consumption, Production, and Trade

	Unit	1981	1985	1986	Change 1981-1986	Change 1985-1986
					Percent	
Consumption 1/						
Nitrogen	Mil. nut. tons	11.92	11.49	10.44	-12.4	-9.1
Phosphate	Mil. nut. tons	5.43	4.66	4.16	-23.4	-10.7
Potash	Mil. nut. tons	6.32	5.55	5.03	-20.4	-9.4
Farmers' expenditure for fertilizer and lime						
Nominal	$ bil.	9.4	7.3	5.8	-38.3	-20.5
Real 2/	$ bil.	6.5	5.4	4.6	-28.6	-14.1
Trade 1/						
Nitrogen imports	Mil. nut. tons	2.45	3.73	4.15	69.4	11.3
Nitrogen exports	Mil. nut. tons	3.09	3.20	2.05	-33.7	-35.9
Phosphate imports 3/	Mil. nut. tons	0.25	0.14	0.11	-56.0	-21.4
Phosphate exports 3/	Mil. nut. tons	4.41	5.53	4/ 3.16	25.4 *	4/ NA
Potash imports	Mil. nut. tons	5.49	5.48	4.87	-11.3	-11.1
Potash exports	Mil. nut. tons	0.88	0.59	0.49	-44.3	-16.9
Production 5/						
Product shipped	$ bil.	9.9	9.4	NA	-5.1 *	NA
Capital expenditures	$ mil.	888.6	313.2	NA	-64.8 *	NA
Employment	Thous.	38.3	29.9	NA	-21.9	NA

* = percent change from 1981-1985. 1/ Fertilizer year. 2/ Deflated by prices paid index for fertilizer. 3/ Does not include phosphate rock. 4/ Does not include superphosphoric acid because of a data reporting change by the Department of Commerce in July 1985. Thus, phosphate exports are understated compared to earlier years. 5/ SIC codes 2873, 2874, and 2875. U.S. Department of Commerce, Bureau of the Census. Annual Survey of Manufacturers. 1985 and previous years. NA = Not available.

Table 2-Farm Machinery Sales, Production, and Trade

	Unit	1981	1985	1986	Change 1981-1986	Change 1985-1986
					Percent	
Unit sales 1/						
40-99 hp. two wheel drive tractors	Thous.	51.0	37.8	30.8	-39.6	-18.5
100+ hp. two wheel drive tractors	Thous.	43.2	17.7	14.3	-66.9	-19.2
Four-wheel drive tractors	Thous.	9.7	2.9	2.1	-78.4	-27.6
Farmers' expenditure for						
Tractors						
Nominal	$ bil.	3.7	1.9	1.5	-59.5	-21.1
Real 2/	$ bil.	2.43	1.09	0.86	-64.5	-20.8
Other farm machinery						
Nominal	$ bil.	6.5	3.7	3.2	-50.8	-13.5
Real 2/	$ bil.	4.45	2.00	1.73	-61.0	-13.3
Farm machinery trade						
Imports	$ bil.	1.55	1.56	1.63	5.2	4.5
Exports	$ bil.	2.94	1.86	1.47	-50.0	-21.0
Trade balance	$ bil.	1.39	0.30	-0.16	NA	NA
Production 3/						
Product shipped	$ bil.	13.0	7.5	NA	-42.3 *	NA
Capital expenditures	$ mil.	522.5	163.5	NA	-68.7 *	NA
Employment	Thous.	125.0	67.1	NA	-46.3 *	NA

* = percent change from 1981-1985. 1/ From the Farm and Industrial Equipment Institute (FIEI). 2/ Deflated by prices paid index for tractors and other farm machinery. 3/ SIC Code 3523. 4/ U.S Department of Commerce, Bureau of the Census. Annual Survey of Manufacturers. 1985 and previous years. NA = Not available.

Table 3-Agricultural Pesticide Expenditures, Production, & Trade

	Unit	1981	1985	1986	Change 1981-1986	Change 1985-1986
					Percent	
Farmers' expenditures for Pesticide:						
Nominal	Bil. dollars	4.2	5.0	4.3	2.4	-14.0
Real 1/	Bil. dollars	3.78	3.91	3.41	-9.7	-12.7
Pesticide trade:						
U.S. exports	Mil. dollars	1204	1363	1424	18.3	4.5
U.S. imports	Mil. dollars	338	449	423	25.1	-5.8
Trade balance	Mil. dollars	868	911	1001	15.3	9.9
Production:2/ 3/						
Product shipped	Bil. dollars	5.2	5.1	NA	-1.9 *	NA
Employment	Thousands	17.2	15.0	NA	-12.8 *	NA
Capital Expenditure	Mil. dollars	252.8	194.8	NA	-22.9 *	NA
Quantity produced 4/						
Insecticides	Mil. lbs.	448.3	370.0	NA	-17.5 *	NA
Herbicides	Mil. lbs.	839.1	755.8	NA	-9.9 *	NA
Fungicides	Mil. lbs.	142.7	109.0	NA	-23.6 *	NA

1/ Deflated by the price paid index for agricultural chemicals.
2/ SIC code 2879.
3/ U.S. Department of Commerce, Bureau of the Census. Annual Survey of Manufacturers. 1985 and previous years.
4/ U.S. International Trade Commission. Synthetic Organic Chemicals: United States Production and Sales. 1985 and previous years.

Table 4-Seed Consumption and Trade

	Unit	1981	1985	1986	1987 *	Change 1981-1986	Change 1985-1986	Change 1986-1987
						Percent		
Total seed use: 1/								
Corn	Mil. bu.	19.95	21.20	19.50	17.42	-2.3	-8.0	-10.7
Wheat	Mil. bu.	108.46	92.20	87.84	78.69	-19.0	-4.7	-10.4
Grain sorghum	Mil. bu.	2.07	1.97	1.60	1.41	-22.7	-18.8	-11.9
Soybeans	Mil. bu.	64.4	60.6	59.0	58.1	-8.4	-2.6	-1.5
Cotton	Mil. lbs.	343.2	278.2	262.6	273.0	-23.5	-5.6	4.0
Farmers' expenditures for seed:								
Nominal	Bil. dollars	3.4	3.4	3.0	NA	-11.8	-11.8	NA
Real (1977 dollars) 2/	Bil. dollars	2.5	2.2	2.0	NA	-16.5	-7.4	NA
U.S. seed trade: 3/ 4/								
U.S. imports	Bil. dollars	61	79	104	NA	70.5	31.6	NA
U.S. exports	Bil. dollars	282	343	357	NA	26.6	4.1	NA
Trade balance	Bil. dollars	221	264	253	NA	14.5	-4.2	NA

* = based on June 1 planted acreage
1/ National average seeding rate multiplied by planted acreage
2/ Deflated by the prices paid index for seed.
3/ Fiscal year
4/ U.S. Department of Commerce, Bureau of the Census. Annual Survey of Manufacturers. 1985 and previous years.

Table 5--Indicators for agricultural input distributors

Indicator	Annual average		Annual average change	
	1974-81	1982-84	1974-81	1981-84
	-----Number------		-----Percent-----	
Soil preparation services (SIC code 071):				
Employment	4,724	5,551	8.5	-6.3
Establishments	583	647	2.8	-.6
Crop services (SIC code 072):				
Employment	36,192	37,358	5.1	-1.9
Establishments	3,564	3,485	1.1	1.9
Farm/garden machine and equipment dealers (SIC code 5083):				
Employment	143,002	124,630	.8	-5.8
Establishments	14,050	13,574	-1.0	-.4
Farm-product raw materials wholesalers (SIC Code 515):				
Employment	131,357	129,563	.7	-2.1
Establishments	13,490	13,480	-.2	.1
Farm supplies wholesalers (SIC Code 5191):				
Employment	139,929	139,878	1.1	-1.9
Establishments	17,928	18,373	-1.1	1.6
Farm supply cooperatives:				
Establishments	2,568	2,202 1/	-2.2	-2.0 2/
	--Billion dollars--			
Business volume	12.1	16.5 1/	17.0	-.7 2/

1/ 1982-85. 2/ 1981-85.

Senator BAUCUS. Thank you, Mr. Lee. Senator Boschwitz has to leave quickly and he has a question that he would like to ask.

Senator BOSCHWITZ. You mentioned, Mr. Lee, that if commodity prices were to be raised to 80 percent of parity, and idling roughly 50 percent of the program acreage base, that would reduce the GNP in general by $64 billion and employment would be reduced by 2 million jobs.

What would you have to do on the international scene to effectuate such a program. I presume also that your assumptions would have to include, some rather high tariff barriers.

Mr. LEE. Yes, sir. You would have to, in order to keep other people from bringing their cheaper products in, you would have to erect very tough barriers at the border. You would either have a declining export market or you would have to spend a lot of money on export subsidies.

Senator BOSCHWITZ. Have you made any studies that have looked at the results of such a program, if we did that? Our other trading partners would not likely sit still for that, either in agriculture or other items.

Have you studied at all what the probable outcome of such a high-tariff barrier program would be?

Mr. LEE. We don't have any actual numbers now. We are looking at the whole range of options in terms of how various domestic programs would affect our position in the world market, Senator Boschwitz, but we do know that if we have these high protective laws and we did not subsidize exports, the other exporting countries would probably be delighted because we would essentially give them our market.

If we then try to get rid of additional production by way of subsidies, we would have the same kind of complaints we tend to get today.

Senator BOSCHWITZ. Thank you, Mr. Chairman. I apologize to the witnesses that I do have to leave.

Senator BAUCUS. Thank you, Senator. Thank you, Mr. Lee. Mr. Kulik.

STATEMENT OF BERNARD KULIK, DEPUTY ASSOCIATE ADMINISTRATOR, DISASTER ASSISTANCE, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC, ACCOMPANIED BY WAYNE FOREN, DIRECTOR OF THE OFFICE OF ECONOMIC DEVELOPMENT

Mr. KULIK. Mr. Chairman, I am accompanied here today by Mr. Wayne Foren who is Director of the Agency's Office of Economic Development.

And, once again, we have submitted a statement. Rather than read the entire statement in the record, I would like to summarize it and submit it for the record.

Senator BAUCUS. Absolutely.

Mr. KULIK. The only disaster loan program that we have had as a result of a Federal land diversion program resulted from a 1983 Payment-In-Kind land diversion program known as PIK. This program was legislated by P.L. 98–270, in April 1984. In fact, the program commenced in December of 1984. And at that time there

were 307 counties in 23 States that were eligible for this designation.

The Governors of 20 States requested designations and that covered 299 of these counties. The designations were made mainly in January 1985. The filing period for these loans remained open for 9 months and the program was finally repealed by P.L. 99-272 in 1986.

In total, 1,052 applications were filed for these PIK loans and 389 or 37 percent were approved for a total of $50.4 million. The average loan size was over $129,000.

As of September 30, 1987, there were still 334 PIK loans in our portfolio with an outstanding value of $40.6 million. Of these, however, only 252 or 75.4 percent were current in their payments with the remaining 82 being either deferred, past due, delinquent or in actual liquidation.

With respect specifically to the role of small business in rural America, the agency and Administrator Abdnor are very much aware of the problems faced by small businesses in rural America and, in fact, the Administrator has made rural development one of his primary initiatives.

If I may summarize the thinking; in most rural areas agricultural production can be considered the factory that drives the local economy. If that production is stopped, there will be an adverse ripple effect on the suppliers of goods and services to that factory; specifically, the rural small businesses. This will, in turn, further damage the economy of the geographic area.

We believe that we can best help these rural economies by encouraging the startup and expansion of other industries in the area. That serves as the basis of the Administrator's rural development initiative.

To explain our concern on the nine-point strategy that each district office has been instructed to implement, I have attached to this statement and have submitted for the record, a copy of the statement made by Associate Deputy Administrator Parrish last month before the Subcommittee on Energy and Agriculture of the Committee on Small Business of the House of Representatives.

I am prepared, sir, to answer any questions you may have on the PIK Program and Mr. Foren will answer any questions you may have on our rural development initiative.

[The prepared statement of Mr. Kulik follows:]

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF

BERNARD KULIK

DEPUTY ASSOCIATE ADMINISTRATOR/DISASTER ASSISTANCE

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING

COMMITTEE ON SMALL BUSINESS

U.S. SENATE

NOVEMBER 17, 1987

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO BE HERE THIS MORNING TO TESTIFY ON OUR EXPERIENCE ON THE IMPACT OF LAND DIVERSION PROGRAMS ON AGRICULTURAL SUPPORT INDUSTRIES.

THE ONLY DISASTER LOAN PROGRAM THAT THE SMALL BUSINESS ADMINISTRATION (SBA) HAS HAD AS THE RESULT OF FEDERAL LAND DIVERSION PROGRAMS RESULTED FROM THE 1983 PAYMENT-IN-KIND LAND DIVERSION PROGRAM (PIK). THIS DISASTER PROGRAM WAS LEGISLATED IN PUBLIC LAW (PL) 98-270 (APRIL 18, 1984) WHICH MADE THE PIK PROGRAM AN ELIGIBLE FEDERAL ACTION FOR PURPOSES OF THE ECONOMIC INJURY DISASTER LOAN (EIDL) AUTHORITY CONTAINED IN SECTION 7(b)(3) OF THE SMALL BUSINESS ACT.

PROPOSED REGULATIONS WERE ISSUED AUGUST 21, 1984. AFTER A COMMENT PERIOD AND CHANGES NECESSITATED BY PL 98-473 (OCTOBER 12, 1984), FINAL REGULATIONS WERE ISSUED ON DECEMBER 24, 1984. IN THE FINAL REGULATIONS, THE GOVERNOR COULD REQUEST A PIK ECONOMIC INJURY DESIGNATION FOR ANY COUNTY WITH AT LEAST 20 PERCENT OF ITS CROPLAND ACREAGE (WITH A MINIMUM OF 5,000 ACRES) IN PIK, OR FOR ANY COUNTY WITH AT LEAST 50,000 CROPLAND ACRES IN PIK. 307 COUNTIES IN 23 STATES WERE ELIGIBLE. THE GOVERNORS OF 20 STATES REQUESTED DESIGNATIONS COVERING 299 COUNTIES. THE GOVERNOR'S OF THREE STATES (MONTANA, WASHINGTON AND WEST VIRGINIA) DID NOT REQUEST DESIGNATIONS EVEN THOUGH SOME OF THEIR COUNTIES WERE ELIGIBLE. EIGHTEEN STATES WERE DESIGNATED ON JANUARY 10, 1985 AND JANUARY 11, 1985 AND TWO STATES WERE ADDED IN MARCH AND MAY 1985, RESPECTIVELY. THE FILING PERIOD REMAINED OPEN FOR 9 MONTHS. THIS PROGRAM WAS LATER REPEALED BY PL 99-272 (APRIL 7, 1986).

IN TOTAL, 1,052 APPLICATIONS WERE FILED FOR PIK ECONOMIC INJURY LOANS AND 389 OR 37 PERCENT WERE APPROVED FOR A TOTAL OF $50.4 MILLION. THE AVERAGE LOAN SIZE WAS OVER $129,000. AS OF SEPTEMBER 30, 1987, THERE WERE 334 PIK LOANS IN OUR PORTFOLIO WITH AN OUTSTANDING VALUE OF $40.6 MILLION. OF THESE, ONLY 252 (75.4 PERCENT) WERE CURRENT IN THEIR PAYMENTS WITH THE REMAINING 82 BEING EITHER DEFERRED, PAST DUE, DELINQUENT OR IN LIQUIDATION.

SMALL BUSINESS IN RURAL AMERICA

THE AGENCY AND ADMINISTRATOR ABDNOR ARE VERY MUCH AWARE OF THE PROBLEMS FACED BY SMALL BUSINESSES IN RURAL AMERICA. IN FACT, THE ADMINISTRATOR HAS MADE RURAL DEVELOPMENT ONE OF HIS PRIMARY INITIATIVES.

TO EXPLAIN THE AGENCY'S CONCERN AND THE NINE POINT STRATEGY THAT EACH DISTRICT OFFICE HAS BEEN INSTRUCTED TO IMPLEMENT, I AM ATTACHING TO THIS STATEMENT A COPY OF THE STATEMENT MADE BY ASSOCIATE DEPUTY ADMINISTRATOR PARRISH ON OCTOBER 22, 1987 BEFORE THE SUBCOMMITTEE ON ENERGY AND AGRICULTURE OF THE COMMITTEE ON SMALL BUSINESS OF THE HOUSE OF REPRESENTATIVES.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

STATEMENT OF

STANLEY B. PARRISH

ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

OCTOBER 22, 1987

81-128 O - 88 - 3

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

GOOD MORNING. I AM PLEASED TO BE HERE TODAY TO TESTIFY ON A SUBJECT OF MAJOR CONCERN TO YOU AND THE SMALL BUSINESS ADMINISTRATION, RURAL ECONOMIC DEVELOPMENT. I AM CONFIDENT YOU WILL AGREE THAT THE OUTMIGRATION FROM RURAL AMERICA TO OUR CITIES MUST BE HALTED FOR THE GOOD OF THIS NATION; WE CAN WORK TOGETHER TO REVERSE THIS TREND.

AS YOU KNOW, THE ECONOMIC OUTLOOK IN RURAL AMERICA IS NOT ENCOURAGING. PER AVERAGE, RURAL RESIDENTS EARN LESS AND MORE OFTEN LIVE IN SUBSTANDARD HOUSING AND POVERTY THAN THEIR URBAN COUNTERPARTS. RURAL RESIDENTS EARN ABOUT 70 PERCENT OF THE AVERAGE ANNUAL INCOME OF URBAN RESIDENTS - $10,000 PER YEAR VERSUS $14,000 PER YEAR. FOURTEEN PERCENT OF RURAL RESIDENT INCOMES FALL BELOW THE POVERTY LINE, COMPARED TO 11 PERCENT IN URBAN AREAS. OF THE RURAL POPULATION OVER 25, 58 PERCENT HAVE NOT COMPLETED HIGH SCHOOL. WHILE 24 PERCENT OF THE TOTAL POPULATION LIVES IN NON-METROPOLITAN COUNTIES, OVER 39 PERCENT OF THE NATION'S SUBSTANDARD HOUSING IS FOUND THERE. MORE THAN 35 PERCENT OF THE NATION'S ELDERLY LIVE IN NON-METROPOLITAN COUNTIES, CONTRIBUTING TO A GREATER NEED FOR MEDICAL SERVICES IN THE RURAL POPULATION. THE LIKELIHOOD OF THESE STATISTICS IMPROVING WITHOUT SOME ACTION IS SLIGHT.

THE SHIFT IN THE FOCUS OF AMERICAN INDUSTRY - FROM A PREDOMINANCE OF RESOURCE EXTRACTION AND MANUFACTURING INDUSTRIES TO INCREASING SERVICE OR INFORMATION BASED

INDUSTRIES - HAS CREATED ECONOMIC DIFFICULTIES FOR RURAL COMMUNITIES TIED TO THE OLD RESOURCE-BASED INDUSTRIES.

ONE EFFECT OF THIS CHANGE IS THAT RURAL COMMUNITIES OFFER FEW NEW JOB OPPORTUNITIES. THE NECESSITY TO SEEK JOBS FARTHER FROM HOME FURTHER EXACERBATES THE PROBLEMS -- BUSINESSES THAT PROVIDE GOODS AND SERVICES IN THE LOCAL COMMUNITY ARE CLOSING BECAUSE WORKERS ARE MAKING PURCHASES NEARER THEIR PLACE OF WORK.

EVEN THOSE EMPLOYEES INVOLVED IN THE OLDER "RURAL" INDUSTRIES OFTEN NO LONGER LIVE IN RURAL COMMUNITIES. FOR EXAMPLE, IN FARMING AND RELATED AGRICULTURAL ENTERPRISES, WHICH ACCOUNT FOR OVER 21 PERCENT OF TOTAL U.S. EMPLOYMENT, MORE THAN 62 PERCENT OF THOSE AGRICULTURE-RELATED JOBS ARE NOW FOUND IN METROPOLITAN AREAS. THUS, WHILE MANY CITY WORKERS ARE DIRECTLY DEPENDENT ON AGRICULTURE FOR THEIR JOBS, THEY ARE NO LONGER DEPENDENT ON RURAL COMMUNITIES. OTHER RESOURCE-BASED RURAL INDUSTRIES CAN BE SIMILARLY TRACED. YET URBAN AND RURAL ECONOMIES ARE INTERDEPENDENT; THE PROBLEMS OF ONE DEEPLY INFLUENCE THE ECONOMIC HEALTH OF THE OTHER.

HOW SHOULD THE GOVERNMENT RESPOND TO THESE DIVERSE AND COMPLEX ECONOMIC AND DEMOGRAPHIC CHANGES. WE ARE CHALLENGED TO FOCUS ON THE APPROPRIATE ROLES OF FEDERAL, STATE, AND LOCAL GOVERNMENTS AND -- ESPECIALLY IN A TIME OF FISCAL RESTRAINT -- TO DETERMINE HOW BEST TO PAY FOR NEEDED SERVICES.

RURAL DEVELOPMENT POLICY INCLUDES MANY COMPONENTS THAT AFFECT AND ARE AFFECTED BY THE CREATION AND MAINTENANCE OF A HEALTHY SMALL BUSINESS COMMUNITY. SMALL BUSINESS IS SHOULDERING A LARGE PORTION OF THE NATIONAL BURDEN OF JOB CREATION AND INNOVATION -- CREATING OVER 60 PERCENT OF THE NET NEW JOBS, PROVIDING 55 PERCENT OF ALL EMPLOYMENT, AND GENERATING NEARLY 40 PERCENT OF THE GROSS NATIONAL PRODUCT. SO, IT IS NATURAL TO LOOK TO SMALL BUSINESS TO STIMULATE GROWTH IN RURAL AREAS. CURRENTLY, SMALL FIRMS (THOSE WITH FEWER THAN 500 EMPLOYEES) PROVIDE EMPLOYMENT FOR 56 PERCENT OF NON-METROPOLITAN WORKERS, COMPARED TO 47 PERCENT FOR THE U.S. AS A WHOLE.

IN THE LAST EIGHT TO TEN YEARS THE UNITED STATES HAS CREATED 15 MILLION NEW JOBS. HOWEVER, THIS IS LARGELY AN URBAN PHENOMENON. IN RURAL AREAS SMALL FIRMS ARE NOT CONTRIBUTING NEW JOBS AT THE SAME RATE AS IN URBAN AREAS. BETWEEN 1976 AND 1984 THE NUMBER OF JOBS IN FIRMS WITH FEWER THAN 500 EMPLOYEES GREW 31 PERCENT IN URBAN AREAS AND ONLY 23 PERCENT IN RURAL AREAS. WE ARE ALSO FINDING THAT THE GROWTH THAT DOES OCCUR IN RURAL AREAS RECEIVES A GREATER BOOST FROM LARGE FIRMS, PRIMARILY IN THE HEALTH SERVICES, FINANCIAL SERVICES, AND EDUCATION SERVICES AREAS.

THERE ARE MANY POSSIBLE EXPLANATIONS FOR THE DIFFERENT RATES OF SMALL BUSINESS JOB GROWTH. IT MAY WELL BE THAT THE EMPLOYMENT ACTIVITY IS SIMPLY A MIRROR OF POPULATION SHIFTS. OTHER REASONS FOR THE SLOWER GROWTH IN SMALL BUSINESS JOBS MAY BE THAT THE MARKET SPECIFICITY WHICH SMALL BUSINESS THRIVES ON IS

EASIER TO CREATE IN LARGE URBAN MARKETS, OR IT MAY BE THAT RURAL AREAS ARE EXPORTING THEIR YOUTH AND THEIR ENTREPRENEURS.

IN ANY EVENT, POLICIES TO REJUVENATE OUR RURAL AREAS SHOULD BE POLICIES THAT PROMOTE THE FORMATION AND EXPANSION OF SMALL BUSINESS. THIS CHALLENGE IN RURAL AREAS IS INTENSIFIED BY SOME OF THE DEMOGRAPHIC CHANGES THAT WE EXPECT WILL AFFECT THE ENTIRE ECONOMY OVER THE NEXT 15 YEARS. FIRST AMONG THEM IS THE SLOWING OF THE POPULATION GROWTH. FROM A POPULATION THAT GREW AT ALMOST 2 PERCENT IN THE 1950s, BY THE YEAR 2000 IT IS ANTICIPATED THAT OUR POPULATION AND OUR WORK FORCE WILL BE GROWING AT LESS THAN 1 PERCENT PER YEAR. THIS MEANS THERE WILL BE MORE OLDER WORKERS, IT MEANS THAT THERE WILL BE ESSENTIALLY NO GROWTH IN THE NUMBER OF ENTRY LEVEL WORKERS. IF PEOPLE ARE LEAVING A COMMUNITY ANYWAY, THE CHALLENGE TO EMPLOYERS, TO OUR EDUCATIONAL SYSTEM, AND TO ECONOMIC DEVELOPMENT IS MULTIPLIED DRASTICALLY.

SBA SUPPORTS A HOLISTIC APPROACH WHICH INVOLVES A FEDERAL/STATE PARTNERSHIP WORKING TOGETHER WITH A STATE/LOCAL PARTNERSHIP. THE FEDERAL GOVERNMENT'S ROLE IS THAT OF A WHOLESALER, SO TO SPEAK, OF PROGRAMS THAT WILL HELP STATES AND COMMUNITIES. STATE'S ROLES WILL BE THAT OF "RETAILER" AND COMMUNITIES -- THE "CUSTOMERS."

I ENCOURAGE YOU TO MOTIVATE YOUR LOCAL BUSINESS LEADERS TO WORK CLOSELY WITH STATE AND FEDERAL GOVERNMENT OFFICIALS TO EXPLAIN EXACTLY WHAT IT IS THEY ARE DOING IN A GIVEN AREA AND WORK WITH

THE BUSINESS COMMUNITY TO ELIMINATE OVERLAP AND CONTRADICTION AND TO ENSURE THAT SERVICES ARE BEING DELIVERED AND THAT THEY ARE THE ONES THAT ARE NEEDED.

IT IS NOT GOOD ENOUGH FOR US, FOR EXAMPLE AT THE SBA, TO SIMPLY DICTATE THAT EVERY DISTRICT OFFICE ACROSS THE COUNTRY GIVE THREE MORE SBA LOANS TO EVERY RURAL AREA. IT IS NOT AT ALL CLEAR THAT EVERY RURAL AREA WANTS THREE MORE SBA LOANS OR NEEDS THEM. LOCAL ENTHUSIASM IS THE KEY TO SUCCESS IN ANY RURAL DEVELOPMENT EFFORT. EVERY SINGLE EXAMPLE OF SUCCESSFUL RURAL DEVELOPMENT I HAVE REVIEWED HAS AT ITS CENTER AN INDIVIDUAL OR A GROUP OF INDIVIDUALS WHO SAY "THIS IS OUR PROBLEM AND THIS IS WHAT WE NEED," AND THEN WITH SOME INTELLIGENCE AND STRATEGY DECIDE WHICH OF THE EXISTING RESOURCES THEY WANT TO USE.

OUR ADMINISTRATOR, FORMER SOUTH DAKOTA SENATOR JAMES ABDNOR, HAS MADE RURAL DEVELOPMENT ONE OF HIS TWO PRIMARY INITIATIVES.

THE ADMINISTRATOR HAS ASKED EACH DISTRICT DIRECTOR TO IMPLEMENT A NINE POINT STRATEGY SO THAT SBA CAN EFFECTIVELY PROMOTE RURAL ECONOMIC DEVELOPMENT. I WOULD LIKE TO DESCRIBE THIS PLAN BRIEFLY.

- WE MUST FIRST DEFINE WHAT A RURAL AREA IS AND THEN IDENTIFY THEM. THERE IS NO UNIFORM FEDERAL, STATE, AND LOCAL DEFINITION. THE U.S. DEPARTMENT OF AGRICULTURE DEFINES A

NON-METRO COUNTY AS ONE IN WHICH THE AGGREGATE TOWN POPULATION IS LESS THAN 50,000. HOWEVER, WE ALL KNOW THERE ARE RURAL POCKETS IN "METRO" COUNTIES.

- EACH DISTRICT DIRECTOR HAS BEEN ASKED TO COLLECT ALL AVAILABLE DATA TO DETERMINE THE RURAL AREA'S STRENGTHS AND WEAKNESSES AND ITEMIZE THOSE WHICH IMPEDE ECONOMIC GROWTH OR BUSINESS EXPANSION.

- THESE AREAS WILL THEN BE CLASSIFIED SO THAT SBA CAN HELP DIRECTLY OR INDIRECTLY. WE WILL TARGET THOSE COMMUNITIES WHO HAVE THE DESIRE AND POTENTIAL FOR ECONOMIC DEVELOPMENT.

- THE DISTRICT OFFICE WILL INVENTORY AVAILABLE RESOURCES. THERE ARE TRADITIONAL SBA PROGRAMS. WE HAVE A CERTIFIED DEVELOPMENT COMPANIES PROGRAM, AND THE SCORE AND ACE PROGRAMS, WHICH MAKE AVAILABLE TO SMALL BUSINESSES SOME 12,000 EXPERIENCED, RETIRED, AND ACTIVE BUSINESS VOLUNTEERS FOR INDIVIDUAL COUNSELING AT NO EXPENSE TO THE BUSINESS. SBA HAS ORGANIZED SMALL BUSINESS INSTITUTES ON ALMOST 500 COLLEGE AND UNIVERSITY CAMPUSES. AT EACH SBI, SENIOR AND GRADUATE STUDENTS OF SCHOOLS OF BUSINESS ADMINISTRATION PROVIDE ON-SITE MANAGEMENT COUNSELING UNDER THE DIRECTION OF FACULTY MEMBERS. WE HAVE SMALL BUSINESS DEVELOPMENT CENTERS, A FEDERAL/STATE PARTNERSHIP, IN 49 STATES AND SUBCENTERS IN OVER 500 LOCATIONS THROUGHOUT THE U.S.

AND, SBA RECOGNIZES THE IMPORTANCE OF PROCUREMENT ACTIVITY TO SMALL BUSINESS AND RURAL ECONOMIC DEVELOPMENT. OUR OFFICE OF PROCUREMENT ASSISTANCE IS CHARGED WITH THE RESPONSIBILITY OF ASSURING THAT SMALL BUSINESS RECEIVES ITS FAIR SHARE OF FEDERAL CONTRACTS AND SUBCONTRACTS. FOR EXAMPLE, IN FISCAL YEAR 1986 OFUTT AIR FORCE BASE NEAR OMAHA AWARDED $221 MILLION IN CONTRACTS. OF THESE, $83 MILLION OR SLIGHTLY BETTER THAN A THIRD WENT TO SMALL BUSINESS. SMALL BUSINESS SET-ASIDE CONTRACTS TOTALED $21 MILLION.

OTHER FEDERAL, STATE, LOCAL AND ASSOCIATION PROGRAMS SHOULD BE CONSIDERED ACCORDING TO TYPE OF ASSISTANCE PROVIDED.

- THE NEXT STEP IS TO NETWORK WITH ALL AVAILABLE RESOURCES. WE DO NOT NEED AND WE CANNOT AFFORD NEW PROGRAMS. WE MUST WORK TOGETHER IN ORDER TO TAKE FULL ADVANTAGE OF THOSE ALREADY IN PLACE. A KEY PART OF THE SMALL BUSINESS ADMINISTRATION'S RURAL DEVELOPMENT PROGRAM IS WORKING WITH THE FEDERAL INTERAGENCY TASK FORCE WHICH INCLUDES SBA, THE DEPARTMENTS OF AGRICULTURE, EDUCATION, HOUSING AND URBAN DEVELOPMENT, COMMERCE -- INCLUDING THE U.S. TRAVEL AND TOURISM ADMINISTRATION -- AND LABOR.

- AFTER DETERMINING THE ECONOMIC DEVELOPMENT RESOURCES AVAILABLE, THE DISTRICT OFFICE CAN TARGET SPECIFIC POINTS OF OPPORTUNITY WITH LOCAL LEADERS.

- THE DISTRICT OFFICE AND COMMUNITY LEADERSHIP ARE NOW ABLE TO DEVELOP AN ECONOMIC DEVELOPMENT PLAN.

- THEY CAN CHANNEL RESOURCES TO LEVERAGE THE ECONOMIC DEVELOPMENT PARTNERS EFFECTIVELY AND TO IMPLEMENT THE PLAN.

- AS PART OF SBA'S IMPLEMENTATION OF A RURAL ECONOMIC DEVELOPMENT PLAN, THE AGENCY MUST REGULARLY EVALUATE IT TO DETERMINE SBA'S IMPACT. WE WILL CONSISTENTLY REASSESS THESE EVALUATIONS TO ASSURE EFFECTIVE AND EFFICIENT PROGRAM DELIVERY.

A POLICY AREA CRITICAL TO THE LONG-TERM ECONOMIC DEVELOPMENT OF RURAL AREAS IS THE REGULATORY ENVIRONMENT. BY ITSELF GOVERNMENT ASSISTANCE MAY BE LESS IMPORTANT THAN IMPEDIMENTS THAT GOVERNMENT PLACES IN THE WAY OF PEOPLE WITH IDEAS AND PEOPLE WITH NEW BUSINESSES TO START. AT THE SAME TIME THERE ARE A VARIETY OF SOCIAL CONCERNS THAT YOU AS LEGISLATORS MUST ADDRESS, CONCERNS WHICH MANY WOULD FIND SOLUTIONS TO BY REQUIRING EMPLOYERS TO PROVIDE A BASIC SOCIAL NEED SUCH AS HEALTH CARE. SOME TEND TO LOOK TO EMPLOYERS TO SOLVE THESE PROBLEMS BECAUSE IT IS DIFFICULT TO RAISE TAXES AND TO INCREASE BUDGETS. IT IS MUCH EASIER TO, IN ESSENCE TAX EMPLOYERS TO PROVIDE HEALTH CARE, FAMILY LEAVE, OR CARE FOR THE ELDERLY. THERE ARE NUMEROUS SOCIAL PROBLEMS WE COULD ASK EMPLOYERS TO SHOULDER. HOWEVER, FOR EVERY POTENTIAL EMPLOYER, FOR EVERY SMALL EMPLOYER, GOVERNMENT MUST DEBATE WHETHER TO LET BUSINESS STICK TO BUSINESS OR TO BURDEN IT WITH SOCIAL PROBLEM

EXPENSES. IN RURAL AREAS WHERE THE ECONOMY IS OFTEN MARGINAL AND WHERE IT MAY BE EVEN MORE DIFFICULT TO REACH AND SERVE MARKETS, THIS IS EVEN A MORE IMPORTANT CONCERN. THE ABILITY TO OBTAIN LICENSES, ZONING PERMITS, BUILDING PERMITS, AND THE LIKE ARE ALL POTENTIAL SIGNIFICANT BUSINESS BARRIERS. THERE ARE MANY PEOPLE IN THIS COUNTRY WHO WOULD BE IN BUSINESS BUT FOR THE ARRAY OF FEDERAL, STATE, AND LOCAL REGULATORY LICENSES, FORMS, PERMITS, TAXES, AND OTHER REQUIREMENTS.

AT SBA OUR CONCERN FOR RURAL DEVELOPMENT, FOR STATE PROGRAMS TO FINANCE SMALL BUSINESSES, FOR THE IMPACT OF STATE EMPLOYER BENEFIT MANDATES, HAS LED THE OFFICE OF ADVOCACY TO FOCUS THIS YEAR'S ANNUAL CONFERENCE FOR STATE LEGISLATURES ON THESE ISSUES. WE ARE HOLDING THIS MEETING IN SAN ANTONIO, TEXAS, NOVEMBER 17-19. WE WOULD BE GRATEFUL IF YOU WILL ENCOURAGE YOUR STATE LEGISLATORS INTERESTED IN RURAL ECONOMIC DEVELOPMENT TO ATTEND.

AGAIN, LET ME ASSURE YOU OF THE FIRM COMMITMENT OF THE SMALL BUSINESS ADMINISTRATION TO THE PARTNERSHIP FOR RURAL DEVELOPMENT. WE LOOK FORWARD TO WORKING WITH YOU IN FULL COOPERATION AND PARTNERSHIP.

THANK YOU FOR THIS OPPORTUNITY. I WILL BE PLEASED TO RESPOND TO YOUR QUESTIONS.

Senator BAUCUS. Thank you very much. We will start with you, Mr. Kulik.

What is the role of agriculture today and in the future, in your judgment, for rural America as opposed to other industries that either are operating or can be enticed to operate in the areas?

In other words, I would like to know whether, in light of our changing global economy, the United States should be encouraging more and more agricultural production by setting aside less and less land, or should we continue to set aside our land as we have done in the past? Should the United States continue to boost farm prices by keeping surpluses down, or should we shift our focus somewhat and concentrate more on helping other industries get off the ground?

For example, in my State of Montana there is a company called Montana Silversmith. Montana Silversmith makes silver belt buckles and produces silver for bridles and saddles.

They import almost all of their supplies from other parts of the country and are one of the biggest suppliers of their products in the Nation. They could be located anywhere in the country. They happen to be in Columbus, MT.

Should the U.S. Government shift its focus and provide incentives to promote the formation of businesses like Montana Silversmith, or should we continue our past policies with regard to agriculture? What is right, should the U.S. Government give to agriculture? What weight to business development?

Mr. KULIK. Mr. Chairman, I would like Mr. Foren to answer the question.

Mr. FOREN. Mr. Chairman, our view is that when you have a community located in a rural area, and that community is dependent on one industry, like agriculture, which is changing because of technology and other reasons, then you have a community that is undergoing economic distress.

In addition, we believe that business development in other industries is necessary for such rural communities if they are going to survive and grow. This means jobs. You are looking at replacing the farmer, in part, who was a producer and an exporter with other businesses. With the changing technology and other factors, you are losing your exporters and your producers and many jobs.

In some communities, such as the one I grew up in, there are active viable farmers and they are producing the product through new technology with fewer people. If you are going to have employment in those communities, business development is vital.

In our view, small business development will provide more stability than bringing in a plant that can be closed just as quickly as it is opened. So from SBA's perspective, we believe that small business development is vital for revitalization.

Senator BAUCUS. I understand that, but how much would it help rural America if, say, there were no agricultural set-aside programs in America today? To what degree would rural America be helped by putting all of its land back into production, thereby using more and more fertilizer, pesticides, equipment, and seed?

Mr. FOREN. The set-aside of acreage does not help the creation of jobs.

Senator BAUCUS. I am talking about planting more. That is the effect of Mr. Lee's testimony.

Mr. FOREN. You would have more jobs but through the technology and so forth, you still are not solving the problem of a single industry in an overall community.

If the community is going to survive and grow, there needs to be a broader base of industry.

Senator BAUCUS. I understand the broader base. I am pushing for that. I also don't want to turn my back on other ways to help develop rural America if it is viable and constructive and makes sense.

So I am asking again the question, to what degree would rural America be helped if, in your judgment?

Mr. FOREN. Economic Health would return to rural communities if land were put back in production and farms were able to sell their products for a fair price. Therefore, acreage set aside programs hurt the economic stability of rural communities and in some cases could be the cause for their demise. However, Mr. Chairman, I am not prepared to answer that question as you asked it. The Department of Agriculture should be in a better position to respond to your question.

Senator BAUCUS. Mr. Lee, could you address that point?

Mr. LEE. We have some estimates in the Economic Research Service, but I don't recall the exact numbers. We know approximately how many of the jobs in the input industry, for example, are in metropolitan areas and how many are in rural areas.

Obviously, the distribution system is more in the rural areas, the farm machinery dealers, the fertilizer dealers, the pesticide people.

So if you put the land back to work, you obviously would add some employment in rural areas. You would add considerable employment to the total economy.

I think, though, that the gentleman from SBA is correct that the total level of employment in farming combined with the parts of the food and fiber system in the rural areas, that alone, as you have pointed out, would not be enough to bring vitality or viability back to a lot of rural areas. However, you could improve the rural employment situation both by improving demand on the downstream part and by improving the input industries through greater use of land.

As of our last census, only in 702 counties did agriculture directly, account for as much as 20 percent of the economic base.

Now, added to that are the agricultural-related industries. But it still is the case that the total of nonfarm jobs and nonfarm related jobs dominate employment even in rural areas today, particularly outside of the Chairman's part of the country—farming is the most dominant and most important part of the economy in the mountain States and the Great Plains. And in the rest of the country, there are relatively few counties where agriculture accounts for as much as 20 percent of the economic base.

So, one does need to have other industries. Our research and experience does suggest that the most lasting foundation for some growth in employment is small business, particularly small business that is generated locally.

Senator BAUCUS. I appreciate that and I think that is basically accurate, as far as I can tell. Can you differentiate between the Rocky Mountains and the Plains States, on the one hand, and the rest of America, on the other, as to the degree to which those economies would be assisted and boosted if all set-asides were put back in production.

Mr. LEE. I don't have any numbers. I do know that it would be most helped in that part of the country, the Great Plains and the Mountain States.

Senator BAUCUS. Would it be significant, would it make a difference?

Mr. LEE. Yes, sir, it would make a difference. It still is the case in that part of the country that it is rather sparsely populated so you still don't have lots of total people out there. Significant percentage changes still don't add up to a large number of people.

Nevertheless, it would be more significant there than in other parts of the country. And by significant, I don't quite know how to measure that. I don't have any numbers for that.

Senator BAUCUS. In our area you say back west and out east. Let me ask another question of you, Mr. Lee.

What would happen if this Administration is successful in getting the world's producing countries to back off under various forms of price import for agriculture? Canada has its dual pricing system, we have our system, and EEC has a different system for supporting agriculture.

What if the Administration is successful in negotiations and convincing all the countries to mutually reduce the ways in which the countries support agriculture?

Mr. LEE. I understand the question.

Senator BAUCUS. What effect would that have on the basic subject we are addressing today; that is, the amount of acreage to be in production or not.

Senator Boschwitz pointed out that countries like Argentina and Brazil have lots of potential acreage that can be put to production. As I understand it, we have set aside more acreage in our country on a proportional basis than has EEC and Canada.

Mr. LEE. Mr. Chairman, there are a large number of people not only in the United States but around the world who are busy trying to analyze that right now and get some hard answers and, of course, it depends on a lot of assumptions about how fast you do these things and whatever.

You won't get agreement among economists on precise estimates right now, but you will get agreement on the general effects. And the general effects can be stated something like this. The net result of all these distortions around the world is to reduce the total amount of consumption in the world and the total amount of trade in the world. There would be little argument about that among analysts in the country.

Senator BAUCUS. Would you repeat that?

Mr. LEE. The net effect of all of the distortions in Japan, the European countries, and the United States that exist today is to reduce total consumption in the world but particularly total trade in the world because you have countries doing strange things.

There is agreement that if you had total world trade liberalization or something close to it, that you would have expanded consumption, expanded world trade and the average market price, the so-called world market price in equilibrium would be higher than the prices that are out there in the marketplace today, because those prices today are depressed as a result of the excess production in Europe, the United States and other countries, and overhanging stocks and that sort of thing. While farmers may be protected somewhat by the programs in the various countries, that marketplace out there is battered down by all of these programs.

So, the net result of trade liberalization would be expanded trade and moderately higher world prices. I think in the United States that would probably mean that if we just turned everything loose, that we would have most of our land back in production.

The only land that would not be in production would be that land that was only marginally productive or on which there was high-cost production. That probably would not go back into production. But most of our land has very little alternative use. And if it has any cost at all—such as taxes—you are going to use it for something rather than see it lie idle.

It may be a very low input kind of farming but most of our land would be back in production. And exactly which commodities you would be producing, that is the kind of thing analysts are trying to figure out now, but we believe that generally we would see expanded exports, somewhat improved world prices and the United States would capture, clearly capture, a larger share of the world market because while there are some pockets in Argentina that can produce cheaper than we can, even some pockets in Europe that can produce cheaper than our average cost of production, these pockets can only provide a small part of the market.

And the United States does have the capacity now to be a large volume, low-cost producer, and we would take a good chunk of that world market.

Senator BAUCUS. You are talking about wheat, not dairy and other crops?

Mr. LEE. I am talking wheat, feed grains and soybeans.

Senator BAUCUS. What effect would it have on farmers' income?

Mr. LEE. Farmers' income, again, that is a number we don't have analyzed out yet. If you measure returns in terms of returns to investment, the way the steel industry and other industries measure returns, you will have competitive returns to investment in agriculture which may be a more reasonable way to look at it.

If you look at aggregate income under liberalized trade, you have to ask: How much decoupled assistance you would be providing. If you look at return from the marketplace you would clearly be selling more product, and at a higher price, so your return from the marketplace would be higher. So it would take a lot less assistance, decoupled or otherwise to farmers, to give them a higher income than what they have today.

There are very large income transfers to the farm sector today and one must look at whether you would continue those transfers as some kind of assistance, or not to determine what the effect on income would be. So, the income situation is not at all clear at this

point, but it is certainly clear we would have stronger income from the marketplace.

Senator BAUCUS. I would just like you again to repeat those figures that you come up with. I guess today you say in 1984, $648 billion of agriculture production?

Mr. LEE. We will soon have some more updated numbers but $648 billion was the total value of the product at the end of the food and fiber stream.

Senator BAUCUS. You have $65 million for the input? What is that, seed, fertilizer?

Mr. LEE. Everything that is produced that farmers purchase.

Senator BAUCUS. Supplies. And the actual farmers, I guess what you call value added——

Mr. LEE. The value-added in the farm sector is about $66 billion. That is not all net income because, in fact, that includes a lot of internal activities on the farm, but if you look at the total value of the sales of farm products, it is sort of the sum of those two, about $125, $130 billion, the total value of farm sales and you subtract out of that the $65 billion or so they purchased in inputs. And you can see then they added about an equivalent amount.

Senator BAUCUS. The downstream is $518 billion?

Mr. LEE. Yes.

Senator BAUCUS. That is 18 percent of GNP?

Mr. LEE. It was 18 percent in 1984. Actually it has been a long-term decline, that number, from 30 to 40 percent decades ago. It is probably around 17 percent today.

Senator BAUCUS. Has that proportion downstream on the farm and upstream been somewhat constant in the last decade?

Mr. LEE. Relatively constant, yes, sir.

Senator BAUCUS. Or would those numbers be skewed a little as a result of the fact that more products are being produced from these acreages than otherwise would be the case because the best acreage is more intensively cultivated?

Mr. LEE. It would skew those a bit toward the downstream side because you would have some reduction in the farm side and some reduction in the input side so you would have a slightly higher percentage today in the downstream part.

Senator BAUCUS. What would the impact of the 0/92 program have on economies in rural America?

Mr. LEE. Not a great additional impact because you have now this year, I believe, about 7 million acres taken out in the program, 6 or 7 million acres. We believe that under the 0/92 we would have maybe another 3 to 5 million acres taken out in total.

So you would have somewhere around 10 to 11 million acres taken out. Typically the intensity of production on those acres taken out through that kind of program are not quite as high, the yield is not quite as high, the input application is not quite as high as on the average acres, so we think you would add another 1 or 2 percent reduction to input demand.

Senator BAUCUS. What percent?

Mr. LEE. One or 2, probably equivalent to the impact of the Conservation Reserve Program.

Senator BAUCUS. Going in the other direction, if all countries were to reduce their support payments for agriculture, would that

have a positive effect on economies in rural America? Is it more jobs and more income, or is it not?

You said you thought more would be put back in the production, you thought the price would increase. Does not the level of production determine how much the price increases.

Mr. LEE. Any answer on that is somewhat speculative but our preliminary analysis would suggest that we would have more acreage in production, probably not quite as intensive as today's input use on those acres because you are trying to control cost, but maybe a net overall improvement in the total use of inputs. So you would have a stronger demand for inputs than you have today.

Senator BAUCUS. All right. That is a positive effect in your judgment?

Mr. LEE. Yes, sir.

Senator BAUCUS. Thank you all very much. I appreciate your assistance.

Our next panel includes Mr. Gib Goodman, president of AGRI Feeds & Services from Helena, MT; Mr. Richard Stiltz, manager of Clayton Point Fertilizer, Inc., Franklin, IL; accompanied by Mr. Lloyd Burling, president, Illinois Fertilizer & Chemical Association, St. Anne, IL.

Thank you very much for coming, gentlemen. Mr. Goodman, it is good to see you here.

STATEMENT OF GIB GOODMAN, PRESIDENT, AGRI FEEDS & SERVICES, HELENA, MT

Mr. GOODMAN. Mr. Chairman, I have been involved in the agriculture business all my life in one form or another. Currently my two sons and I own and operate a small feed, grain, seed, and fertilizer plant located in Helena, MT. We employ two additional men and have been in business for the past 15 years.

One thing I want to stress at the outset of these comments is that as businesspeople, we are not recommending the abolishment of farm programs. Farmers must make a profit in order for us to survive.

Many of the comments I make today will reflect some of the thinking of agribusiness people located through northern Montana, which is definitely in a very depressed condition.

The observations that I am going to reflect are personal views and opinions that I have developed traveling through northern Montana. Last summer I made a trip to the north-eastern part of the State, my hometown of Plentywood, and had the opportunity to spend the night in the small town of Chinook, which at one time was one of our growing progressive young communities.

After dinner the wife and I walked up and down Main Street and it was very depressing. It really brought to mind what has happened in rural America.

Almost half of the Main Street store businesses were closed down. This did not reflect, and I didn't have time to find the status of the farm dealers, the agribusinesses that are directly affected by this depression that we are suffering in agriculture today.

You see this through all of the communities. And I think I want to emphasize in rural Montana, especially those northern-tier

States that are dependent on dry land farming, there isn't a lot of options. We are not going to have high-tech industry come into those areas so agriculture has been and will continue to be the survival of our communities.

I think we need to remember the past of this agricultural situation. In the 1960s we developed surpluses. In the 1970s there was a worldwide drought situation that enabled us to move the surpluses out of the country and farmers flourished and agribusiness flourished and everybody thought we were on the road to a full recovery and continued prosperity in agriculture.

It didn't take long after the fence-to-fence farming that was recommended by the Department of Agriculture, by the way—and economics recommended it—farmers were doing well and it looked like we were going to have an unlimited demand for our World products.

It was just a few years ago, instead of worrying about a surplus, we were worried about shortages in grain. As you recall, there were even those people in the country that were saying: "We need to reduce the feeding of grain to livestock because the people of the World were going to starve if we did not divert grain from livestock and put it back into the market channels."

It didn't take long when that situation changed and now we are back facing another surplus. This surplus is the problem we are trying to deal with today. We recognize the cost to Government associated with the surplus but we feel that it is wrong to virtually drive rural America out of existence as a solution to this problem.

Maybe we should be added to the endangered species list. Certainly then we would at least command as much consideration as the black-footed ferret, which is a real popular animal in Montana today. In fact, a large amount of Government money is being spent trying to find the little buggers.

In northern Montana, I will cite a situation I am strongly familiar with because it is in my hometown. A few years ago there were four viable machinery dealers. Today there are only two. And as I understand, one of those is just about ready to go out of business.

The Peavy Co., which operated a very successful grain business for 70 years in Montana, 3 years ago shut down its operation and placed its storage under the Commodity Credit Program. Frankly, in our country elevators in Montana, those whole operations are becoming extremely dependent on income received from Government storage.

Land diversion programs are not the sole reason for the demise of these businesses, but it is a contributing factor. And I believe if these diversion programs are increased to the level that some people advocate, Government will then be looking at how do we handle the unemployment and those people that worked in the businesses in those rural communities?

The Conservation Reserve Program, I think we can live with that type of program. I do have some real reservations about allowing whole farms to go into the program.

In northern Montana, the young people that place their whole farms into the Conservation Reserve leave the area. They seek other jobs in other locations. The older folks that are about ready to retire anyway, they head South. It is not the most pleasant

country to live in the winter if you don't have real ties to your business.

So I think maybe it would have been more equitable if we are going to have to have diversion programs, to see that those are spread equally throughout all of the farmers of America.

In Montana, in five of those northern counties, I just selected a few that have had some real strong signups under the Conservation Reserve Program, there were 681,000 acres in five of those counties placed in CRP.

Using a production cost, and this production cost reflects the fertilizer, the seed, the fuel, repairs, the actual cost of raising that crop, $40 per acre amounts to a total of $27,240 million. Spread this throughout those five counties and if you are familiar with the size of those communities, I think Astor was probably the biggest town with a population of 10,000. From there on it goes down to 100. And it is devastating to those communities and that is why we are seeing the storefronts closed because you must remember, as the machinery dealer goes out of business and the fertilizer and the seed dealer go out of business, then there is even fewer people that are going to buy the groceries and the hardware and other services that you will see up and down Main Street.

As far as the solution to the problem, I wish I had a good one. Maybe what the Department of Agriculture needs to do is to review all of the old farm programs. Maybe we need to reflect on the old parity formula with the corresponding legal elements.

At that time one of the things that I think was a benefit to rural America and to the farmers was the old excess grain or Hot Wheat Program where the farmer could seed excess acreage, place it under bond and hold that grain until or in the event that he had a crop failure and needed to sell the crop to pay his income or if the price level increased to a figure that justified putting it into the market.

The bottom line is we need to work toward moving our product into the market channels. I think it is totally negative to take this massive production away from the American farmer. And I believe in the long run that is more expensive than what the so-called subsidy programs are now.

I think we need to possibly increase export subsidies or utilize them as we are now. The figures I read indicate that our surplus is decreasing. That is the direction we need to move in.

I just don't think we need to do it with these extreme diversion programs such as 0/92 on top of the CRP; maybe one or the other. I just wish I had the answers.

I think one other thing that is critical to this whole agricultural situation, both for the farmer and agribusiness, is we need to develop some stability in that program. It is a disaster for us every year. The farmer is trying to project a budget. He has to make that banker feel he is going to derive enough income to adjust his expenses.

Agribusiness is the same way. If the farmer's income is taken away from him or cut back drastically, it is going to be difficult for him to budget some of those expenses we are dependent on providing. The stability is a disaster. We have the 5-year farm program

but every year we go through these crises of making some type of major adjustments that really effect what we are going to do.

Also, I am a strong opponent of using agricultural products as a diplomatic tool. I just think that is a terrible mistake.

In summary, let me acknowledge, again we recognize the problem of surplus production. However, in attempting to resolve these problems, the broad scope of results and resulting consequences to other segments of the economy must be considered equally, such as you are suggesting where the small business has the opportunity to develop an economic plan along with these programs.

We believe that some of these drastic diversion acreage cuts are short-sighted and that possibly the productivity of our agriculture is really a blessing. And we should learn how to manage it to our benefit instead of consider it as a liability.

Thank you for the opportunity to speak.

[The prepared statement of Mr. Goodman follows:]

Testimony of

MR. GIB GOODMAN
Agri Feeds
Helena, Montana

before the

Senate Small Business Committee

Rural Economy & Family Farming
Subcommittee

The Fertilizer Institute
1015 18th Street, N.W., Washington, D. C. 20036
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My name is Gib Goodman. I have been involved in agriculture all my life. Currently, my two sons and I own and operate a small feed, grain, seed and fertilizer plant located in Helena, Montana. We employ two men and have been in business for 15 years. My testimony will not be loaded with statistics on the rural situation in Montana. Instead, I will attempt to make the point of how land diversion farm programs and the agricultural condition is directly affecting agricultural business. Many of the points I make reflect comments made to me by other agricultural business owners located throughout Montana.

When the Lewis and Clark Expedition traveled through what was to become Montana in the early 1800's, they marvelled at the great spance of land and its beauty. A few years later, mining, timber and agriculture began utilizing those natural resources resulting in the making of a state that began contributing to the economic growth of America.

Today we are seeing many areas of our state regressing to the status of the days of Lewis and Clark. Those areas in Montana that are experiencing this regression are that part of our state that is almost entirely dependent on agriculture for its economic survival. There is a small group of people who feel this regression may be okay. These people base their idea on the assumption that we really do not need the agriculture production we are now experiencing.

My, how fast we forget the past! These same areas of agricultural production that are now suffering economic distress have played a great part in providing our country with basic food

and fiber during two world wars, plus supplying a world market in the early 1970's that suffered from the lack of food due to an extensive drought. I am certain that everyone in attendance today can recall the many reports at that time stating that American agriculture was going to be forced to reduce grain feeding of livestock in order to be able to feed the world's human population. In other words, just one decade ago, the concerns focused on grain shortages.

What happened? The price of grain rose to a level on the open market that made farming a truly profitable business. Farmers responded by gearing up with "fence to fence" production and utilizing all the technology available to maximize production.

It did not take many years for the situation to change. Because of the ability of our farmers to produce, the so-called grain shortage once again became surplus. This surplus is a problem we are attempting to deal with today.

The business community recognizes the cost associated with our farm surplus, however, we feel that it is wrong to virtually drive rural America out of existence as a solution to this problem. Maybe rural America should be added to the endangered species list. Certainly then, we would at least command as much consideration as the black-footed ferret.

Let me cite a few facts that are happening in the northern sector of Montana. This area is basically dryland farming with some livestock operations. In my home town of Plentywood, there were four viable machinery dealers, today there are two. Peavy

Company operated a grain elevator for 70 years. Three years ago the company shut-down its operations and placed its storage under the Commodity Credit Program. Frankly, the whole grain elevator operation has become extremely dependent on income received from government storage.

Land diversion programs are not the sole reason for the demise of these businesses, but it is a contributing factor, and I believe if these diversion programs are increased to the level that some people advocate, government will then be looking at how we handle the problems of unemployment and closing businesses.

Diverted acres placed under the Conservation Reserve Program in five counties total 681,000 acres at a cost of $21,260,000. Lost revenue to agribusiness, using a production cost of $40 per acre, amounts to $27,240,000. Spread this lost-sales figure through small towns with populations well under 10,000 and you can appreciate why people living and working in rural areas are concerned.

There must be a better way to adjust our grain price to fit the world market. Do we really accomplish a long-term goal when we increase exports by volume while overall value is decreased? Possibly we should consider falling back to some version of the old farm program that related price to a parity formula with corresponding acreage allotments. The program which allowed farmers to plant excess acres and store under bond at their own expense also had some merit. That excess grain could be marketed when the producer had a short crop or after the price exceeded a set level.

Diversion of acreage will probably always play a part in ongoing farm programs. However, do we really need to go to the extreme that is being contemplated? Was it good policy to allow whole farms to sign up under the CRP? Would it be better to spread that diversion equally throughout all farms?

A major problem that needs to be resolved is the instability of agricultural programs. If government is going to play a major part in the marketing and production of grain, we must have some continuity, both for the benefit of farmers and agricultural businesses. Also, is it necessary for agricultural exports to become a diplomatic tool?

In summary, those of us in agricultural business acknowledge the problem of surplus production. However, in attempting to resolve those problems, the broad scope of results and resulting consequences to other segments of the economy must be considered equally. The majority of Montanans do not want to see our state regress to a big, open country that has lost all of its production ability. I believe that is a short-sighted view, and when we look back just a few years, we can see that possibly the productivity of our agriculture is really a blessing, and we should learn how to manage it to our benefit instead of as a liability.

Thank you for your time and consideration in listening to my views.

Senator BAUCUS. Thank you. I appreciate it very much. Mr. Stiltz.

STATEMENT OF RICHARD STILTZ, MANAGER, CLAYTON POINT FERTILIZER, INC., FRANKLIN, IL

Mr. STILTZ. Thank you Mr. Chairman. We do want to express our appreciation to be able to present our views, not only my own, but my association, the Illinois Fertilizer and Chemical Association's, on the impact of farm programs on the rural economy.

I have been in business since 1975. I have seen the rural economy during the good years in 1970s, and the low years of the 1980s. As a State, we are the largest user of fertilizers and pesticides in the Nation, but we have seen our fertilizer consumption of 4.58 million tons used in 1979 drop to 3.67 million tons in 1986. That was a drop of $118 million per year that did not enter the rural economy, let alone the turnover effect this would have in our rural areas.

I realize farmers have to be healthy economically for agribusiness to be strong. The 1985 farm bill is doing that. We are seeing better cashflow, higher net income, commodity prices are improving, exports are increasing and inventories are dropping.

We are seeing better use of some of our marginal acreage with conservation programs such as the CRP Program.

Now I am here to testify on the effects 0/92 would have on our business and our association's members. 1983 is still fresh in my mind. As a Nation, we saw 78 million acres taken out of production. Closer to home in my own business, I saw our gross sales drop from $2.4 million in 1982 to $1.5 million in 1983. Over 50 percent of our corn acreage was put into the PIK Program. I lost $92,000 that year because of large amounts of inventories that had already been laid in before the decision was made to put PIK into effect and from lost sales. That is a lot for a small business.

I paid taxes, Federal taxes the year previously in 1982. I am still carrying forward those losses of 1983 these past 3 years. We have gone from 12 full-time employees down to seven. These past years have been no better than break even.

This is being brought out in a survey that was conducted by Purdue University this past summer in 1987. The retail plants that participated in the survey, reported that their net profit had dropped from 11.6 percent of sales 1975 to 1.2 percent of sales this past year and that was before taxes and interest. Once you take out your taxes and interest, you are definitely looking at red ink.

I have made no capital investments in large application equipment since 1981. And I have seen many major suppliers of application equipment go out of business because of this.

I have basically lived off retained earnings and depreciation as corn acreage has dropped 28 percent from base acreage according to local ASCS figures. In 1987 with the addition of the paid land diversion of 15 percent, total set-aside is very close to those 1983 acreages locally and also nationally.

How much longer is agribusiness and rural America going to be asked to sacrifice income, jobs, and security at the expense of stopping the efficient production machine of agriculture? How many

increasing acres are we going to let other nations grow at our expense? What about the long-term effects of agriculture? Do we totally shut down this powerful industry?

I have been asked to sacrifice profits and jobs for the betterment of farmers in 1983 with the advent of PIK. I have met those standards again in 1987, but adding the 0/92 plan is too much just to save less than a half a billion dollars on our Federal budget over the next 2 years. This is a Band-Aid approach and will not come close to the amount of lost taxes, jobs, markets, and exports that may be lost. The USDA forecasts 3 million acres may be set-aside with 0/92.

Private forecasts are 10 to 14 million acres set-asides. And I do differ somewhat from Mr. Lee's statement. The fact that 0/92 would have a negative effect on rural communities.

In my own place of business, if I go home next week and find out that 0/92 is put into effect, I am looking at additional layoffs and, of course, reducing our inventories and our purchases, which will have a great effect on my local economy and then also the financial concern that lending institutions have in agriculture alone for many of our businesses.

The amount of acres that would be laid out with 0/92 is too much with what we have already set aside. This seems to be counterproductive as the farm program continues to work slowly and successfully. Let's don't make a terrible mistake. It could be an economic disaster for rural America.

Thank you.

[The prepared statement of Mr. Stiltz follows:]

Testimony of
Richard Stiltz
Clayton Point Fertilizer
and
Lloyd D. Burling
Illinois Fertilizer & Chemical Assn.

before the
Senate Small Business Committee
Rural Economy and Family Farming
Subcommittee
November 17, 1987

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The Illinois Fertilizer and Chemical Association Inc. (IFCA) wishes to express its appreciation to the Subcommittee on Rural Economy and Family Farming for giving us an opportunity to present our views on the impact of farm programs on the Illinois rural economy.

Testifying on behalf of IFCA is Richard Stiltz, past chairman of IFCA. Mr. Stiltz is also a partner/manager of Clayton Point Fertilizer Inc., located in Franklin, Illinois. Appearing with Mr. Stiltz is Lloyd Burling, President of IFCA with offices in St. Anne and Springfield, Illinois.

IFCA is a voluntary, not for profit organization with 850members located throughout Illinois. Membership base is composed of over 400 retail dealers who provide agricultural fertilizer and pesticide products and service to Illinois farmers for the growing of crops. The Association's primary emphasis is to support the small retail business with information so they might be more proficient in their participation in a regulated industry.

Illinois has consistently been a leading consumer of agricultural fertilizer. In 1979, we utilized 4,579,978 tons of fertilizer; last year we consumed 3,671,758 tons. These figures are supported by the Illinois Department of Agriculture's report on commercial fertilizer tonnage. When evaluating what this means to rural Illinois, it reflects that $118,068,000 did not enter the rural economy in our state. If we could assume that the dollars in agriculture are multiplied three times locally, this would reflect that $354,205,800 did not enter the rural economic network in our state.

The major acreage drop occurred in the payment-in-kind year of 1983. Below is a table reflecting field crop acreage over the years. Planted field crop acreage for selected years. (In millions of acres)

	1979	1983	1986	1987
Corn	11.05	7.9	10.4	9.2
Soybeans	9.62	9.0	9.15	8.75
Wheat	1.25	1.4	.8	.95

In addition, reports from ASCS indicate that 348,876 acres have now been accepted into the 10-year Conservation Reserve Program. In Illinois, unlike other states, none of our 102 counties has reached or exceeded the 25% maximum level of participation.

The loss of our support industry members is also a major concern to our retailers. Since 1983 we have lost 50 percent of our manufacturers who supplied self-propelled application equipment. Part of the reason is our dealers are repairing or purchasing existing or used equipment. New equipment purchased have been virtually halted. This situation is not necessarily unique except it is occurring at a time when we are responding to environmental issues that require the latest application technology.

Groundwater protection at a facility is going to cost a retailer anywhere from $5,000 to $100,000 predicated on the location of the facility.

We know that the retail facilities that have remained have done so because they are operating on retained earnings and depreciation these past several years. This erodes equity in a business that many lending institutions will not tolerate and lines of credit soon are exhausted. Living on depreciation is only a short term fix as equipment must be replaced and profits were not generated for such. In a July 1987 survey report of Midwestern retail fertilizer plants, Purdue University, West Lafayette, Indiana, reported that the average operating profits before taxes and interest repayments have plummeted from 11.6 percent in 1975 to 1.29 percent in 1986. This translates to retail plants operating in the red. Much of the decline in profits has resulted from the acreage reductions that have taken place these last five years, especially in 1983 and 1987.

Since 1983 we have estimated that we have had a 24 percent change in ownership at the retail industry level. Within the past 18 months consolidation and acquisitions have been common. In terms of closed facilities our retail industry in Illinois has not experienced the same effects as in other states.

Closings that have occurred are closely associated to those counties with greater Conservation Reserve Program participation. Once again, we are fortunate that we are not an industry that can be totally shut out by our customers, unlike the Illinois farm equipment dealers who previously had over 1,000 establishments as compared to just of 400 today.

Dramatic labor reduction is reflected in a survey that we conducted with 100 retail establishments prior to 1983. At that time a typical operation was employing 8.3 persons full time. Today, in a recent survey, that number has decreased to 3.2, or more important, our operations are functioning with 39 percent less full time employees. This is occurring at a time when we need qualified technical expertise at these facilities. It is virtually impossible to employ or train personnel on a part-time basis. Unfortunately, the lack of consistency in farm programs has not alleviated our dilemma of going ahead with the training and development of full time employees.

The small agricultural supply business in Illinois, and throughout rural America, has more than paid the price for acreage cutbacks. We have had no opportunity to evaluate on a timely bases, future plans for survival. We have had to react to quick-fix farm programs by government. We have not been allowed the opportunity to plan, evaluate and execute long range or even short term business decisions. Even today, we appear before this Committee because of our concern that unacceptable farm program alternatives might be implemented before the 1988 crop is planted. The farmer in our state has already implemented his fertilization program for 1988.

Rural America does not need additional acreage reductions. What we do need is leadership to move us back into the markets. Its devastating to us that in this country we have not made strides in developing policies that allow us to consistently produce. We need to spend our energies in regaining lost markets

and improve our balance of trade position. It was reported recently that for every 1,000,000 acres we remove from feed grain production below 70,000,000 acres, 10,000,000 additional acres are put into production throughout other parts of the world. We believe it's important that we stand fast and exhibit leadership to our global trading "partners."

We must exhibit our long term commitment to an agricultural policy that will stabilize and eventually put all of agriculture back on its feet. We feel that further acreage reduction or concepts that create greater inequities are not in the best interest of this nation.

We know that fewer retailers in our industry is a given under the present economic condition. We are aware that the manufacturers profile is changing. We also are aware that in the '60s we had insurmountable surpluses but entering into the '70s the agricutlural sector was called upon to plant fence-row to fence-row. Without a long term policy, will our agricultural confidence ever return when called upon?

Rural America survives only when all segments in that society are allowed to function. Small business entities in agriculture provided the economic base for most all small rural communities. We would hope that the Congress would recognize this fact as we seek to solve our agricultural dilemma.

Senator BAUCUS. Thank you Mr. Stiltz. What would the effect of the Harkin/Gephardt bill have on your business?

Mr. STILTZ. I differ from the view of others, that the bill, I think, would be counterproductive but I feel there are other ways to improve the agriculture economy. I am fearful of some of the high prices for grain that may result and that the bill would limit not only our exports but also domestic use within the United States.

Senator BAUCUS. Well, what effect would that have on your business and related businesses?

Mr. STILTZ. We would continue to see reduced acreage because we would be limiting production. We would not be plowing the necessary moneys or farmer profits back into our place of business. We would continue to see agribusiness suffer over the long term.

Senator BAUCUS. Mr. Ramsdell, I apologize. Before I ask more questions, why don't you give your statement.

STATEMENT OF SCOTT RAMSDELL, RAMSDELL FARM, LTD., FLANDREAU, SD

Mr. RAMSDELL. My name is Scott Ramsdell. I am a 35-year-old president and owner of three fertilizer companies in South Dakota and one in Minnesota. I am a college graduate with a degree in economics and a minor in agronomy.

I run a family business of 30 years which I took over from my father about 13 years ago. We started out in the beginning in South Dakota where fertilizer was not really known of at that time.

To begin, I would like to make a brief statement on the 1983 PIK Program and how it affected our business. We had already set in all our inventories, set up our capital expenditures and also made our decisions as far as employment when the 1983 PIK Program began.

As the other gentlemen have stated, the program was really devastating. We ended up with inventories left over, profits went to big negative losses and it just left us in a position where we can't plan any more. In any business these days, we try and do a projection based on a 1-, 5- and 10-year program. The 1983 program threw out our projections on total business where we could not make any business decisions.

Under the same program, I would like to speak in favor of the 1985 program in the sense that it has given us some consistency as far as how we plan our businesses. It finally tells us that we can now determine what the Government is planning on doing in making decisions based on that. Our capital expenditure and so on have been based on the 1985 program.

I am in favor of that program for several reasons. First, back in 1985 many of our customers were on the verge of bankruptcy. Our farmers were being foreclosed by every bank in the country and it looked like no hope for the farmers.

We were pleased to see that they put together a program that would help put capital back in our hands and let them continue to farm and reduce the acres on a limited basis, which I think most agribusinesses decided that that was a much better situation than a complete 0/92 program.

I have seen the farmer in the last 3 years go from an absolute dismal situation of no hope to once again having hope in their lives. They have gone from not being able to show theirselves in a church to coming back to church in a proud manner. And I am pleased to see that, and I think that the 1985 program has done that for them.

The second reason I am in favor of the 1985 program is because it has finally given the U.S. Government a 5-year program to combat against the foreign countries as far as our grain policies. Too many times in our type of democracy, which is a great democracy, we do not give a policy enough time to work itself out and before a program is done—bam—something else happens.

And the thought of trying to make the rest of the countries in this world compete against us on a fair and free open market basis can be destroyed instantly by taking away our farming programs and putting us back into a 100 percent reserve program.

If we go into the 0/92, I think that we will not just lose the battle but lose the war. I have heard of a lot of screaming from foreign countries and had the opportunity to talk with some of them at times. They are thinking that we are destroying the whole system.

To me I guess we have got to look at it on the basis that if that is the way they want to play ball, we have to play it also. On that basis I am extremely in favor of the 1985 program but not the 0/92.

How has the diversion program affected our local town? Is the past 6 years, 28 businesses in our community have gone out of business. We have lost both our implement dealerships, one car dealership, two hardware stores, to name a few. There is only one business in our town that is really growing and that happens to be the bank. And I feel the only reason is so they can better scrutinize our farmers and agribusinesses for loans they have put out for them.

You had talked about, the gentleman from the SBA talked about, economic development. For the last 6 years I was president of our local economic development group, in which we had gone up previously to attempt to entice new business into our small community. And I will tell you, it is one of the hardest projects I have ever taken on as far as trying to bring economic development to a rural business to a rural town.

It is almost impossible to go to someone in Minneapolis and tell them to come to Flandreau, SD, with a population of 2,000 and set up a business. People do not want to come to our rural areas.

And the jobs that we have got have been minimum wage and three-fourths have been women jobs. We are thankful to have them but it is not the answer to the rural problems that we have. I am convinced of it.

And I feel a little disappointed to hear that that is the way we need to go. We have been trying and trying hard for many years and we just can't seem to get the people to come to our States with the jobs that are needed to our small rural areas.

Certainly towns such as Sioux Falls, SD have been successful in enticing Citibank and many other large corporations to coming in, but Sioux Falls is much different than Flandreau, which is 2,000 people. We have none of the things to offer that the larger towns do, and I think all of rural America is in the same situation.

We are farmers in the sense that we deal with the farmers on a daily basis. That is our survival. That is our livelihood and it will be. There is no other thing for us.

And putting us into the program of 0/92, I keep falling back on it because I have been in favor of the program. I felt that it has been a fantastic thing that we needed to limit our production but we can't take it out. It will destroy our businesses totally.

On to how it has affected my business personally, I would like to go back to 1983 when the PIK Program came on.

Senator BAUCUS. Could you summarize please, as best you can?

Mr. RAMSDELL. OK. In 1983 we had one other location and we closed it down because of it. We had gone from an employment in our location from 1984 to 1986 from—in 1984 we had 28 employees. We currently have 15. We reduced 40 percent of our employees because of this program.

Wages were reduced 28 percent, our wages. We have even taken a 5 percent cut. All our employees have taken that knowing that times are tough for us. We have cut our expenses by 26 percent and our sales have dropped by 29 percent over the last 3 years.

We have done everything we can possibly do to prevent us going out of business and are happy to take the bullet and bite it and suffer through, but I don't think we can survive a complete diversion program.

Thank you.

[The prepared statement of Mr. Ramsdell follows:]

Testimony of

Mr. Scott Ramsdell
Ramsdell Farm Ltd.
Flandreau, South Dakota

before the

Senate Small Business Committee
Rural Economy & Family Farming
Subcommittee
November 17, 1987

The Fertilizer Institute
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My name is Scott Ramsdell. I am 35 years old and President and owner of Ramsdell F&M Ltd. of Flandreau, South Dakota, Egan Fertilizer of Egan, South Dakota, Brookings Fertilizer and Propane of Brookings, South Dakota, and Ramsdell's AgriService of Lake Benton, Minnesota. I am a 1975 graduate of South Dakota State University with a B.S. majoring in economics and minoring in Agronomy.

To begin, I would like to make a brief statement on the 1983 PIK Program which was passed in the early spring of that year. Because of the lateness of that program all of our decision as to inventories, capitol expenditures and employment were already made, consequently when the program passed, we had a TOTAL DISASTER financially. It has become essential that we make our business decisions on a 1-5-10 year program to keep on a stable track with projections on sales and expenses. For that reason the 1983 program was devastating, but for that same reason the 1985 program has been successful: that is, we can base our short and long term decisions on it.

How has the 1985 Farm Program affected our local community and specifically my businesses? First, I would like to make a statement on the 1985 program, then I will continue with the effects. I believe the 1985 program was and still is the best program ever adopted by our government. There are two basic reasons for my positive statement on the 1985 program.

First, before the adoption of this program many of our customers were on the verge of bankruptcy. Lenders began to take a different view on farmers, that being the lending of money based on cash flow not on net worth. With the commodity prices vs. input costs at a negative ratio and bankers at the verge of foreclosing, many were left with no hope. The 1985 program has put hope back into there "lives" (I say lives because farming is truly their purpose for living) and in the past three years many have been able to pay up much of their debt and walk our rural streets with that wonderful glow that they used to have.

Second, it's about time the U.S. has adopted a positive policy and stuck with it. Too many times in a democracy such as ours good decisions change before they are given a complete chance to obtain their primary goals - that of putting agriculture back into a free market. Currently this is impossible until we can get the rest of the world to play by the basic rules of simple economics, but if we continue with our current program and meet their subsidized products head-on, we will pressure them into sitting down with us to come up with a fair and equitable price structure of world commodities. But, if we wander from our current program and put too much emphasis on reducing our surpluses, we will lose not only the current battle but also the war. For this reason, I stress the importance of being strong and consistent with the 1985 Farm Bill and also looking ahead to the 1990 Farm Bill.

How has the 1985 Farm Bill affected our rural community? In the past six years, 28 businesses in our community have gone out of business. We have lost both our implement dealerships, one car dealership, and two hardware stores, to name a few. The only business that has done any significant expansion is our bank and that's only so as to be able to better scrutinize their loans. Our small town has worked feverishly at attempting to entice new economic development which is almost an impossible task when competing against larger communities. Although many have gone and many more are in marginal shape, we all realized that something had to be done to stabilize the farm economy. Consequently, those of us that are left have tightened our belts as far as it is possible. The threat of a total diversion is like a recurring nightmare which we hope will not come about. We all went through the 1983 PIK program and most of us will not survive another such program. You may think that because we survived one we can do it again. But the problem is that in 1983 we had just come off a period of successful years and were able to absorb our losses. This is not the case in our current economy.

With that I once again will stress the fright that I and my fellow Flandreau, S.D. businessmen have in the complete diversion option offered our farmers. There is only one thing that I am sure of and that is there will not be a rural business community left to support the farmers of the future.

As to how the diversion program has affected my business?? To begin, after the 1983 PIK we began a period of internal changes which led to the closing of our office in Elkton, S.D. and a 40% reduction of full-time employees from 28 in 1983 to 15 in 1986. Total salaries paid out in this period were reduced by $117,651 or 28%. To culminate our commitment to reduce salary overhead in 1985 all of my employees agreed to take a 5% reduction in pay. We knew that times were going to be tough and that we would have to cut our expenses as much as we possibly could. Through this period our total expenses went from $1,295,830 in 1984 to $959,757 in 1986.

Attached you will find a readout of exactly how our reductions have occurred plus how our local retail economy has been affected.

My employees are a loyal, hardworking bunch of men and women that understand that we are going through some difficult times and know that they must work extra hard and long to compensate for the employees we had to let go, but this can only last so long before we must begin to bring back additional manpower to relieve the extra pressure that I have put on all of them.

As you can see we have done all that we can to to survive and prosper with a limited diversion program. But there is nothing more I can do but to essentially close my doors and lay off the rest of my employees if we have heavy participation in the proposed 0/92 option.

What can we do to alleviate our current surplus and bring us into a position that would be within the bounds of our federal budget? I believe we must quickly dispose of a great portion of the surplus grain and the best solution I see is to either process it into ethanol or burn it up in our power plants.

This may seem quite drastic but it is a feasible means of lessening our current program plus make us less dependent on foreign oil. You may say that this is the same end result of the 0/92 option, except for one major difference, and that of course is the survival of our rural businesses. I hear that the story around Washington is that our gasoline cost us $5/gallon -- $1 for oil and $4 for the navy escort. It seems to me that we could alleviate a lot of those problems plus put many rural people to work by producing ethonal at a much cheaper price.

Secondly, why do we pay only our commercial elevators 36 cents/bushel and 12 cents/bushel for handling of current stored corn. I can not think of one farmer that would not have a future use for on the farm flat storage buildings. If they could store this amount, your small town business would probably get the jobs of putting up there buildings.

Synopsis of Effects of Diversion on Retail Fertilizer Business

	Flandreau, South Dakota		All Locations	
	Gross Sales	Percent lost since 1984	Gross Sales	Percent lost since 1984
984	$2,499,248		$3,988,249	
985	$1,990,750		$3,380,706	
986	$1,752,029	-29%	$3,259,587	-19%
	Total Expenses		**Total Expenses**	
984	$ 645,239		$1,295,830	
985	$ 577,177		$1,180,953	
986	$ 539,009	-16%	$ 959,757	-26%
	Wages		**Wages**	
96.	$ 232,309		$ 420,040	
985	$ 199,242		$ 365,431	
986	$ 175,832	-25%	$ 302,389	-28%
	No. of Employees		**No. of Employees**	
984	15		28	
985	14		25	
986	9	-40%	15	-40%

Flandreau, South Dakota Retail Trade

		Percent lost since 1984
1984	$17,282,803	
1985	$15,350,803	
1986	$12,250,940	-25%

Senator BAUCUS. Thank you all very much. The final panel is going to be Mr. David Senter who is a basic advocate of the Harkin/Gephardt bill. And I imagine he is going to make several points. One may be that the legislation would produce more income and that more income would have a ripple effect in rural America.

But Mr. Stiltz, didn't you say that you think the program would have the opposite effect as it applies to your business? We have an obvious problem here and that is income in the pockets of farmers. Farmers haven't been doing too well lately. We are trying to find ways to help raise the level of income for farmers.

At the same time, I think it is true, that the more land that is put out of production, the more it is going to have adverse effect on folks in the upstream in particular. But advocates of the Harkin/Gephardt bill will say: Well, it is more income in the farmers' pockets. It will have a positive effect or positive ripple effect in the rural communities.

I would like to hear your impressions and reactions and suggestions which might help us resolve this apparent difference of opinion. I will start with you, Mr. Stiltz.

Mr. STILTZ. I may need some assistance here from Mr. Burling but looking at that question, my concern is that the bill is supposed to increase the level of the farm income. That doesn't necessarily mean it trickles down to agribusiness as we would still be limiting the acreage for production. That doesn't necessarily mean that our margins will increase for the dollars farmers will be spending with us for their inputs.

So it would not necessarily mean that all that money is going to go back into our rural areas, especially in our agribusinesses and that we would benefit from it.

My concern is the cost that such a bill would have and the financing of such a bill. I am fearful that it would limit, without great subsidies for our exports, what we have gained back and what we may gain back in the future with the present farm bill.

And then the concern domestically is if we have commodity prices that are much higher and supported by Government subsidies, what will that do to our domestic consumption? Will that continue to grow or do we import? Are we going to have to add tariffs in such a way that we can keep our domestic consumption without exports actually coming in from other countries? Will the price of food increase as consumers are asked to foot the bill?

So those are some of the concerns that I have with the Harkin/Gephardt bill and I am fearful that it would not do what it is planned to be, and that it would not improve farm prices.

I feel that the present bill and the way we continue to lower our target prices and our loan rates will be more competitive on a worldwide basis where we can get back some of these export markets, where we can use our efficiency, not only at the farm level but at the agribusiness level. We can improve and export these products, increase domestic consumption with the advent of new technology, with the use of ethanol, with the use of corn being used for producing plastics, replacing salt, and so forth, this is the way that we need to go about it and probably the rural community will prosper best with that type of an approach.

Senator BAUCUS. Mr. Ramsdell.

Mr. RAMSDELL. I am in favor mainly of the current program. I think that reducing by limiting the amount of production is not going to be the answer that we need.

Senator BAUCUS. Why not? The argument is that it produces more income for the farmers and that they will spend it.

Mr. RAMSDELL. Looking ahead at the world situation of Brazil and the other countries, I can't believe that if we limit our production here, that they are not going to jump right into it and overproduce to compensate for our limited production.

I don't think any limit of production is the answer to anything. Brazil is waiting now to put the railroad in to expand their farming area by as many acres as we have in the United States right now. Saudi Arabia is looking at planting corn in their desert and watering it with salt water. Genetics are getting that far.

I don't believe any type of limiting of our corn production is the answer. I think the answer is to come into a free market. And a free market will not come unless we sit down with the rest of the world countries and determine that subsidies have to stop.

I do believe acres will go out on theirselves. I think in my area alone we will lose acres that are marginal. I think we will start looking at a field stating this field can produce 150 bushels of corn, it is going to cost $1.75 a bushel to produce it. If corn is $1.50, it can't be produced. Then we will go out of production.

But a limiting basis on holding down production is not the answer.

Senator BAUCUS. Gib, do you have any thoughts on this?

Mr. GOODMAN. I am not totally familiar with the Harkin/Gephardt bill but in reading the comments made on it that are going to be presented shortly, it seems to me it is a different way of doing the same thing we are doing now.

I thought first when I read this we were possibly trying to follow the same basic program that Kennedy gave us, which is that sales are based on a bushel quart, that is allocated to each farmer based on what the Canadian Government is able to market into the trade.

I am quite concerned as to how this program would raise these market prices and what do we do if we don't get this world—you have to keep this world price or keep equitable some way in relation to the world prices.

We are tied into this world production, that is the bottom line to date. I think if we had to try to reduce our production to the point where basically our domestic demand is what you are dealing with, there will not be any rural America left.

Senator BAUCUS. What do you think about the idea of having all countries reduce their price supports?

Mr. GOODMAN. I think that is what needs to be done. I think the negotiating that is going on now is what we have to do. And I think we have to keep in mind what the world will do such as this Argentina situation.

People like to grow wheat, for example. It is a relatively easy crop to grow. It is not labor-intensive. And if anybody can be convinced that there is a chance of making some bucks in it, they are going to do this.

And you can talk to California farmers who are raising wheat or have raised wheat in the past and have the opportunity to raise other crops but if that price of wheat gets to the point where it becomes a viable entity, economically, they will switch to wheat and that is where we have these problems.

I guess I have some reservations about the program as I read it briefly.

Senator BAUCUS. I would like to hear Mr. Ramsdell and Mr. Stiltz' comments on moving to a worldwide reduction in subsidies. The basic question is whether this would have a positive effect on your businesses, and in your judgment on farmers' incomes or not? And what should we be concerned about if we are successful in moving in this direction?

Mr. RAMSDELL. I think it is the only answer we really have. I think I would give back more than Mr. Stiltz because I come from a State where we have marginal land, but on a long-term basis, we can plan for those things. We have land that probably should be taken out of production, I know it shouldn't be in production.

I do know and am convinced that if we do not get on to a world market and have the other nations agree with us on price structure, we will never have an answer. Every time our Government jumps into the bandwagon and puts a limit on the grain, we have seen anyone from even Cargill themselves have brought wheat from Argentina up the coast and are dumping it because it made them money and those things will happen. This is a capitalistic country.

I have seen no other answer besides getting together with the world market. And that cannot happen if we limit our grain production. We have to make them hurt to the point where they say: Yes, we need to get together.

Senator BAUCUS. Mr. Stiltz.

Mr. STILTZ. I think if we can get the European common market to reduce some of the tariffs that they have, where we can look at some other countries receiving a favored status and export enhancement, we can improve our exports of commodities, and we will get back some of the exports lost and lower the inventories that we presently have where we can be on a more worldwide competitive basis.

This is what will put dollars back, not only in actual farming of crops but into the agribusiness as well.

Senator BAUCUS. Well, thank you very much, gentlemen. I appreciate you coming here. We will hear a different point of view from our next panel.

Our final panel includes Mr. David Senter, national director of American Agricultural Movement in Washington, DC. Mr. Senter.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURAL MOVEMENT, INC., WASHINGTON, DC, ACCOMPANIED BY CORKY JONES, PRESIDENT

Mr. SENTER. Mr. Chairman, if it is all right, I would like to bring to the table with me our national president, Mr. Corky Jones. He is a chemical and seed fertilizer dealer in Nebraska.

Senator BAUCUS. Mr. Jones.

Mr. JONES. I am national president and a farmer from Brownville, NE. Thank you for including me.

Senator BAUCUS. You bet.

Mr. SENTER. Thank you, Mr. Chairman, for the opportunity to appear before you today in this hearing. We feel it is very important to producers across the Nation.

I wish that Mr. Lee would have had an opportunity to have stayed around and listened. I think a little touch of common sense and reality would have been good for some of the positions that he had made.

Historically, farm programs in this country going back to the 1930s, those programs that have contained an effective supply management have been those programs that have worked such as tobacco, peanuts, and marketing orders just as examples.

These programs work because production is gradually adjusted each year to meet both export and domestic consumption.

Since 1973 and 1974 when the U.S. Government called on producers to expand production, the total agriculture picture has changed dramatically. New land has been put into production, much of which should have never been broken out of virgin prairie. Marginal and highly erodable land has been brought in. New hybrids have increased the yield of most of our crops and production has greatly expanded in other countries because of Government-imposed embargoes. Countries such as Brazil are the major competitors of the United States.

Earlier the railroad being built in Brazil was mentioned as a way to expand their soybean production which will directly compete with our farmers. The producers are very upset because this railroad is being built with U.S. dollars.

And all too often throughout our agriculture negotiations and opening up relations with China and other countries, U.S. technology has been exported instead of U.S. commodities. And a combination of this has made these supposedly purchasing countries all direct competitors of our producers. And this has led us into the crisis of the 1980s.

We have a blessing in this country and that is the ability to produce too much food. Many countries around the world see millions of people dying because they cannot produce even enough to provide life. And yet as our country continues to produce this surplus, prices are depressed.

The current administration has allowed huge surpluses to build. When prices are low, U.S. rural communities and agribusiness suffers.

Since 1981, $350 billion worth of asset value has been lost to agriculture due to deflation of our land and equipment. This has eroded the tax base for small towns and counties and States to the point of having a devastating impact. Schools are closing. Counties are cutting services and many go without fire and police protection.

This is occurring because of current policies, not because we had the Harkin/Gephardt bill in place. To have full production as we see it, the only jobs that would be created would be those that store surplus grain and also additional needs in bankruptcy courts.

With the failure of programs to control production, the administration realized in 1983 we needed to do something about these staggering surpluses. The Payment-In-Kind Program was adopted. This program was successful. In one year we eliminated all of the burdensome surpluses. Commodity prices reacted.

The whole farm bids and 50 percent bids did, in fact, allow some producers to stay on the farm that otherwise would have faced bankruptcy because they did not have to produce another crop below the cost of production.

However, there is no way you can idle those kind of acres, millions of acres, without having a disastrous impact on agribusiness. The program hurt equipment dealers, seed dealers and agricultural suppliers. With low prices in 1982, coupled within a year of this kind of set-aside, it bankrupted this sector.

The economic problems of the ag sector often attracts the price of commodities. It is very interesting, though, to hear agricultural suppliers say that we need to lower prices to farmers. That appears to work in reverse.

Farmers do not pay their bills when they cannot cover their cost of production, not because prices are higher.

With reduced stock at the end of 1983 is when, in our opinion, USDA made a fatal mistake not going to an effective supply management to manage those stocks on a year-to-year basis. Basically we went back to full production. Stocks rows and by 1985 we were buried again under surpluses.

Those that say we would have to idle 50 percent of our acres under the Harkin/Gephardt bill is wrong because that would be eliminating 100 percent of our surplus in 1 year, a rerun of 1983.

The Harkin/Gephardt bill specifically puts a maximum 35 percent reduction. This is where we will spend 3 to 4 years eliminating surplus, which is the number of years we have spent building up those surpluses. This will protect rural business and agribusiness and suppliers by gradually reducing the surplus instead of doing it in 1 year.

The 50/92 provision in the farm bill is just a step toward giving producers more flexibility to make their decisions. Last week I met with agricultural leaders from the European common market who were here in D.C. asking for talks with the U.S. owned establishing production levels and historic market shares in the World.

As in the past, the United States continues to refuse to enter those kind of negotiations with the European common market.

We do, in fact, endorse and support the Harkin/Gephardt philosophy. We believe the only way to control production is by controlling bushels, pounds, and gallons and not acreas. We also believe that if this approach is used where that you gradually adjust production each year to meet export and domestic consumption, that it has far less negative impact on suppliers in rural communities than programs such as the 1983 PIK or the 0/92 option now being considered.

We also believe under this bill when you enter sufficiency payments and go to a higher loan rate that you, in fact, put more cash in the farmer's pocket which will allow him to increase spending and help the communities.

One of the provisions in the bill, currently we are subsidizing 100 percent of production. Under the Harkin/Gephardt approach, you only subsidize those bushels that are exported. And on corn that would only be one bushel in four.

So we believe that this would be a real cost savings. Over-production is not a no-cost item. A $26 billion farm bill, $4 billion to a failing farm credit system, lenders have written off hundreds of millions of dollars in bad debts this year and yet we continue to hear people say: Let's continue this same program. Frankly, we are not sure the U.S. Government can afford to continue the same program indefinitely.

The losses to agribusiness because of farm bankruptcies are huge. Many of our farm equipment dealers are no more and this has happened with cheap prices, not high prices.

The American agriculture movement also supports a referendum. We believe that farmers should participate in program decisions. We believe that it is time to put a little common sense back into farm programs. It is time we took the rotting corn and wheat off the ground and fed the hungry people of the world, including some right in this own country.

It is time we put conservation practices back into place to save our soil and water for future generations.

I hope by the year 2000 and then by the year 2050 that we are still able to say that we can produce more food and fiber than we need in this country, but unless we tend to our natural resources, that will not be the case and we will enter a time of scarcities and shortages and problems with consumers and starvation across the World.

It is time that we had a farm program designed for U.S. producers and consumers and not just grain traders and food processors.

Thank you, Mr. Chairman, for having the opportunity to be here.

[The prepared statement of Mr. Senter follows:]

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TESTIMONY FOR

DAVID SENTER, NATIONAL DIRECTOR

AMERICAN AGRICULTURE MOVEMENT, INC.

ON

THE EFFECT OF LAND DIVERSION PROGRAMS ON

AGRICULTURALLY SUPPORTED INDUSTRIES

TUESDAY, NOVEMBER 17, 1987

BEFORE THE

SUBCOMMITTEE OF THE SMALL BUSINESS COMMITTEE

ON

RURAL ECONOMY AND FAMILY FARMING

CHAIRMAN, MAX BAUCUS

Mr. Chairman and members of this committee, the American Agriculture Movement, Inc. would like to thank you for giving us the opportunity to appear before you today.

Historically, farm programs have worked when they contained an effective supply management program. Tobacco, peanuts and marketing orders are examples of such programs working today. These programs work because the production is gradually adjusted each year to meet export and domestic consumption.

Since 1973 - 74, when the government called on U.S. producers to expand production, the picture has greatly changed. New land has been put into production, new hybrids have increased the yield of most of our crops and production has greatly expanded in other countries. Because of government imposed embargoes, countries such as Brazil have become major competitors of United States producers. The U.S. technology has been exported many times instead of U.S. commodities. A combination of all these factors have led us into the crisis of the 1980's.

As the U.S. surplus builds – prices are depressed. The current administration has allowed huge surpluses to build. When prices are low – our U.S. rural communities suffer. Since 1981, over $350 billion of asset value has been lost due to the deflation of our land equity and equipment devaluation. This alone, has eroded the tax base for small towns, counties and even states to the point of having a devastating impact on their tax income. Schools are closing, counties are cutting all services and small towns often go without fire and police protection. This travesty is occuring because of current policies.

With the failure of programs to control production, the administration came forward with the 1983 Payment-In-Kind (PIK). This program was successful to the degree that in one year, we eliminated most of the surplus stocks of commodities. The whole farm bids and fifty percent bids allowed many producers to help themselves by not producing another crop below the cost of production. However, there is no way you can have millions of acres idled and not have a disastrous impact on agri-business. The program itself hurt equipment dealers, seed dealers and most agricultural suppliers. With low prices in 1982, coupled within a year of millions of acres of land out of production – it bankrupted the agri-business sector.

With reduced stocks at the end of 1983, the United States Department of Agriculture made a fatal mistake, U.S. producers basically went back to full production. And as stocks rose again – prices fell. By 1985, we were buried under surpluses again with low prices.

The 50/92 that is contained in the 1985 Farm Bill is a step toward giving more flexibility to producers. This year almost as many acres were idled as were in 1983 with the combined acrage of CRP, 50/92 and the other acreage diversion programs.

The AAM has endorsed and actively supported the Harkin/Gephardt bill. We believe the best way to control production is by bushels and pounds. As history proves – acres do not control production. We also believe that if supply management program are designed each year to meet export and domestic use the production is gradually adjusted and avoids the huge swings in production which has severe economic impact on producers and agri-business. Also, under the Harkin/Gephardt bill, loan rates would be raised to end deficiency payments

which in effect will raise market prices.

With higher prices for the farmer's pocket, the ripple effect will be a boom to local communities and agri-businessmen. Farm families would once again be able to purchase needed items and to make long term capital investments in their farms which they are unable to do under current legislation.

AAM supports a referendum for producers. Instead of having non-farmers dictate farm programs, the producers would have a hand in decisions on their own destiny. It's time we put common sense back into farm programs. It's past time we took the rotting corn and wheat off the ground when there are hungry people in the world, including – right here in the United States – farm families themselves. It's time we put conservation practices back into practice to save our soil and water for future generations. It's time we had a farm program designed for U.S. producers and consumers – not grain traders and food processors.

Thank you Mr. Chairman, we look forward to working with this committee to deal with this important issue.

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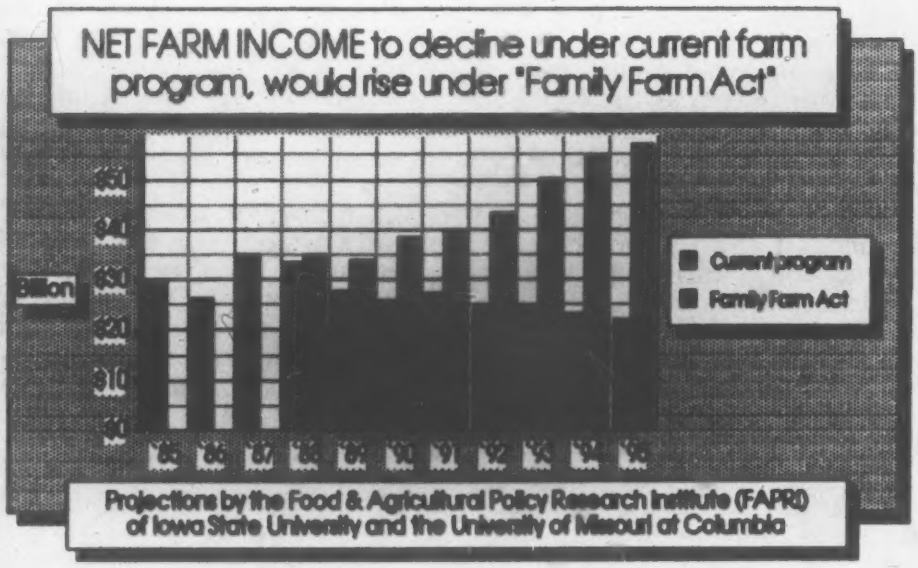
NET FARM INCOME to decline under current farm program, would rise under "Family Farm Act"
Billion
Current program
Family Farm Act
Projections by the Food & Agricultural Policy Research Institute (FAPRI) of Iowa State University and the University of Missouri at Columbia

Senator BAUCUS. Thank you, Mr. Senter. What do you think about these efforts to reduce worldwide subsidies? Is this a good idea or a bad idea?

Mr. SENTER. Well, I think it is kind of a good thought maybe that some have had and they may think some time it will happen. In our opinion, it will never happen.

Because of the difference in exchange rates of currencies, different policies, it is going to be impossible to ever enter a time when you can completely level the playing field. We have countries that put the producers and their ability to produce food above all other policies and expenditures in their governments. We have a whole host of mismatched reasons why there are subsidies and differences across the world.

Our own Government continues to use agriculture as a foreign policy tool. We have an embargo against Nicaragua right now. So as long as governments continue to interfere in agriculture through monetary policy that changes the value of the dollar to extremely high and now it is low, that directly on a day-to-day basis affects agriculture. And in our opinion that will prevent us from ever having "free trade," whatever it is.

Senator BAUCUS. So you don't subscribe to the view that we should try to maximize our efficiencies of American producers and try to "beat the competition" and do so in a way that is naturally to the benefit of the United States?

There are many who say, as you well know, for wheat and feed grains that the United States is generally a more efficient producer, has better infrastructure, better production, is a more efficient producer, and so forth, compared to other countries. Do you agree?

Mr. SENTER. Sir, we, in fact, have the best producing unit and most efficient producers in the World but we have a totally different system here. We have a tax base that has to support schools and roads and bridges and all of our infrastructure for the high standard of living that we have in this country.

For you to say that our rice farmers must be competitive with a rice farmer in Taiwan who gets 50 cents a day means that, in fact, for us to compete on a fair and equal basis, that we would have to lower our standard of living in this country to match 50 cents a day.

Senator BAUCUS. Wait a minute. I grant you that it is different in different commodities; I am asking about some commodities. That is the problem with agriculture, not two commodities are alike.

Different producers, different crops, different situations, different soil conditions, different markets, everything is different. Do you agree that we are more efficient in producing some crops compared with other crops?

Mr. SENTER. Well, the difference in efficiency comes from the part of the World that our competition exists in.

Senator BAUCUS. That's right.

Mr. SENTER. If you are talking about the European common market, we are as efficient and compete with them on a level basis. When you look at the standard of living, the per capita income in Brazil, our soybean farmers, we would have to lower our standard of living.

And Mexico as far as cattle, your Montana ranchers would have to lower their standard of living considerably to compete on an equal basis with cattle producers in Mexico, plus the chemicals and growth stimulants and everything they can use that is banned from use in this country.

So the system that we have in place, we believe we should have a fair and equal domestic price. And if we have to subsidize a product in order to sell it in a world market, that subsidy should be at the export point and should meet whatever the competition is, be it through additional commodity or be it through a direct subsidy.

It is unfair to force producers to sell cheaper and cheaper and for the Government to send out checks to producers every year. Farmers, they want a fair price in the marketplace for their product. And by forcing the price lower, we are trying to put farmers on the front line against foreign treasuries.

And in your opinion that will not work.

Senator BAUCUS. I must apologize, I unfortunately have to go to the Senate Floor very quickly. But you heard testimony from the ERS to the effect that if subsidies would be reduced worldwide for wheat and feed grains, U.S. production would increase and so would commodity prices.

Do you agree? If so, why?

Mr. SENTER. One of my views on Mr. Lee's statement in talking about reducing subsidies, that is talking about lowering the price of commodities around the world.

We subscribe to the theory that we should negotiate production level agreements with the European common market, with Canada and with major competitors. Once you control production in the world, you, in effect, will raise the price of commodities in the world market, which will benefit not only our own economy but will benefit other countries around the world.

Senator BAUCUS. That is if other countries also agree to control production.

Mr. SENTER. That's right. And that cooperation would be far better than confrontation if we, in fact, could agree on production level agreements among the major producers.

Senator BAUCUS. It would be hard to enforce that, though. Analytically, I think you are correct.

Mr. SENTER. The marketing alone concept that is now in place on cotton and rice, be it an export pig or be it the provision that is in the trade bill, we have the mechanism to police such an agreement.

Senator BAUCUS. That's right. In fact, I have been interested in exploring marketing alone for other commodities besides cotton and rice. But what is your answer to those folks who are fertilizer suppliers, and so forth, who point out that in the last several years they have lost jobs? What do you say to them?

Mr. SENTER. Sir, we have lost farmers. We have lost 600,000 farmers since 1981. And, of course, you lose suppliers when you lose farmers.

The Commerce Department shows that for every seven farmers that go out of business, you lose a Main Street business. And those fertilizer dealers, farm equipment dealers are part of that loss. And when we can stabilize the farm sector, you in effect will stabilize

the jobs of all of the fertilizer suppliers, implement dealers and all those that supply us out on the farm.

Senator BAUCUS. So it is your point that it is much more—the plight and problems that face implement dealers and fertilizer suppliers, and so forth, is much more a question of farmers' economic adversity rather than it is acreage set-aside?

Mr. JONES. Senator, I would like to——

Senator BAUCUS. I must say I only have a couple minutes before I have to leave.

Mr. JONES. Mr. Chairman, I am an actual farmer with calluses on my hands and other parts of my anatomy, but just came in from Brownville, NE, and I am also a national president of the American Agricultural Movement, do a lot of traveling, a lot of speaking in some 40 States across this Nation, but our family farm operation consists of three sons and myself and part of the income has been, up until just the last couple, 3 years derived, from CV fertilizer chemical sales as a part of our operation, which worked well, up until about 2, 3 years ago and then the failing farm bills of 1981, failing farm bills of 1985 puts our accounts receivable in an unprecedented arena.

We should be all in this together. The fertilizer people, the seed, the chemical and everything and we would be if they would drop that barrier because the accounts receivable have devastated rural areas around Brownville, NE, and clear across this Nation. That is the unemployment factor.

If we were really going to look at one thing, we have got to have a price that covers the cost of production. No other entity can stay solvent without that, the same thing in production of agriculture.

But we can review real quick, just like opening Christmas toys at Christmas for the kids, when all else fails, you look at how you are supposed to put it together. That is what has happened in agriculture in the farm bill.

If we look back to something that worked, we will see parity agriculture, higher loan levels of those commodities, at least enough to cover the cost of production, where the purchaser is paying the price, not the taxpayers, with a supply management. That is the type of farm bill that the Harkin/Gephardt bill is and it was put together by farmers and ranchers all across this Nation, not by the failing type of 1981 and 1985 farm bills put together by a select few that are representing themselves, including the fertilizer industry. We are all in this together.

We have got to be Americans and have to act like Americans and continue the high standard of living. If it wasn't for that, the American Agriculture delegation would not be in Washington DC, this week when we thought the credit system was going to hit full Floor debate in the Senate.

Apparently the 1985 farm bill is failing, not like some testified here today. If it hadn't been failing, we wouldn't be here, there would be no need for a bailout in the farm credit system or the entities of lending institutions across this Nation.

Senator BAUCUS. I agree with you. We should move much more quickly on farm credit.

Mr. JONES. I appreciate the opportunity to come in late and I appreciate you being here, and as usual, I have to say this, since I am kind of reserved——

Senator BAUCUS. I can tell that.

Mr. JONES I always wonder where everybody else is at. And I know it is busy, just like it is busy out on the farm. But I hope they do get the message that is portrayed here today, that the cry of Americans is not the cry of just a few.

Senator BAUCUS. Sure. Thank you very much. I appreciate your help.

[Whereupon, at 11:25 a.m., the hearing was adjourned.]

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